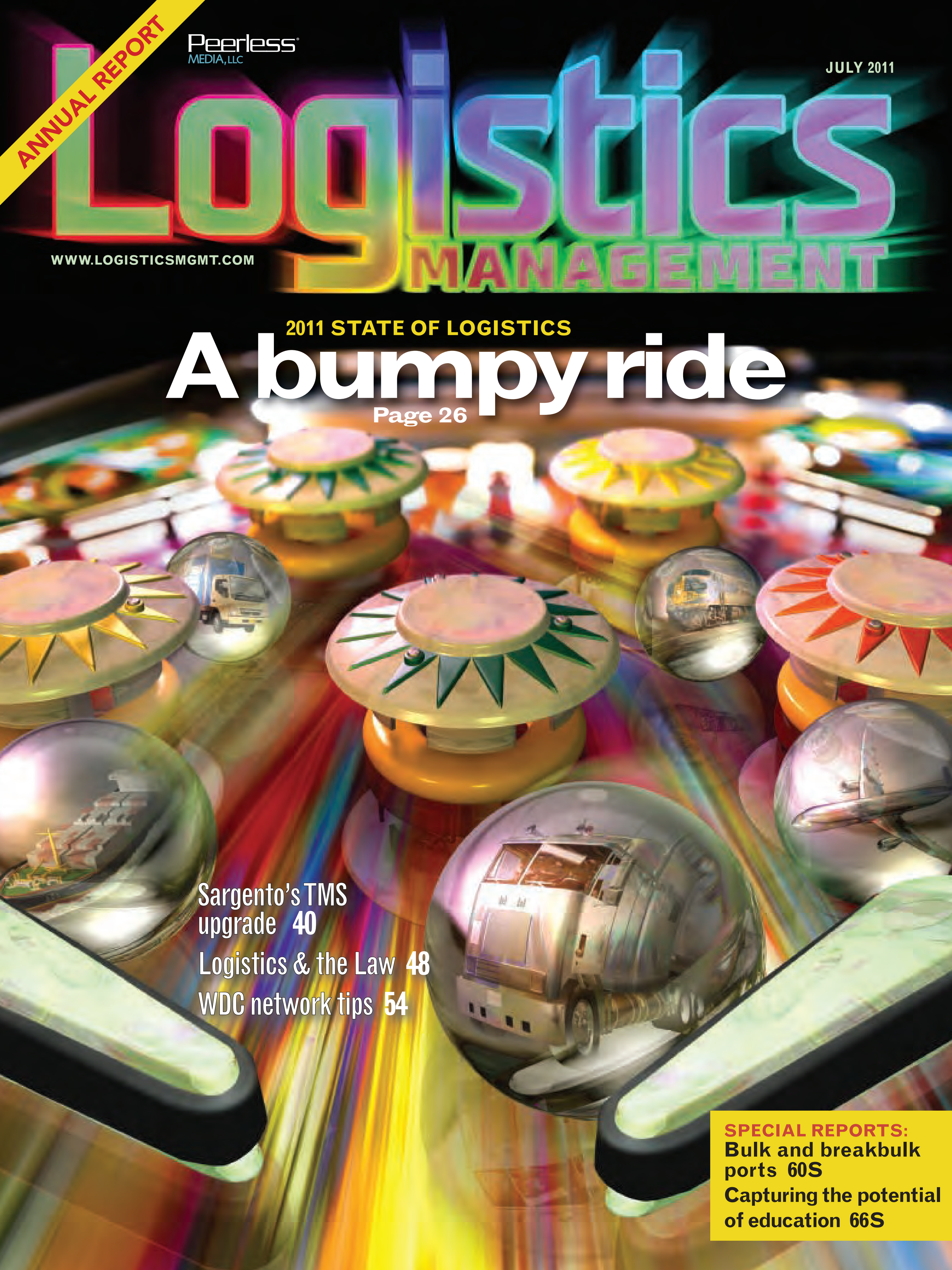
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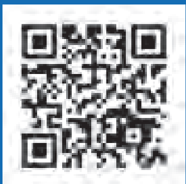

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Cass Freight Index shows further signs of economic moderation. In continuing the theme from its previous report, June's release of the Cass Information Systems Freight Index showed that a moderation in freight volumes is still intact. Cass' May report showed that shipments at 1.111 were 0.2 percent less than April's, which was 0.45 percent ahead of March. Even with flat volumes, shipments were above the 1.0 mark for the 12th straight month going back to May 2010, when it topped 1.0 for the first time since November 2008. On an annual basis, May shipments were up 9.6 percent, which was below April's 12.3 percent annual comparison. May expenditures at 2.317 were up 1.7 percent from April and 29.6 percent compared to May 2010.

Report points to good signs for cross-border trucking. A Bloomberg report released earlier last month stated that Mexican Economy Minister Bruno Ferrari said his country will sign a formal agreement to end a cross-border trucking dispute with the U.S. soon, setting the stage for the Latin American country to remove punitive tariffs. In 2009, the pilot program for cross-border trucking was eliminated as part of the White House's $410 billion Omnibus Appropriations Act, H.R. 4105. These tariffs amount to $2.4 billion of American goods, and range from fruit juices, to pet food, to deodorant, among others. Even though this program-killing measure was approved, the Obama administration said it would work to create a new cross-border, long distance trucking program between the U.S. and Mexico.

Pacific rim reliance. While the International Air Transport Association (IATA) further downgraded its 2011 airline industry profit forecast to $4 billion, Asia-Pacific carriers are expected to earn $2.1 billion—the most profitable of all regions. But even here there were warnings issued by analysts, who note that the number was dramatically down from the $10 billion profit that the region achieved in 2010. Asia-Pacific airlines carry 40 percent of all air freight volumes, while low labor costs and relatively low hedging means fuel accounts for a bigger proportion of total costs. In addition, the Japanese earthquake and tsunami are expected to dent the region's prospects for the remainder of the year. However, this will be more than offset by robust growth in both China and India. The continued dynamism of these economies means that Asia-Pacific is the only region where demand increases (6.4 percent) is expected to outpace capacity growth (5.9 percent).

Data shows seasonal economic growth amid long-term concerns. Data from Panjiva, an online search engine with detailed information on global suppliers and manufacturers, showed solid economic growth on a seasonal basis from April to May. Following a 7 percent gain in shipments from March to April, April to May showed an 8 percent increase, said Panjiva. The number of global manufacturers shipping to the U.S. was up 6 percent, matching a 6 percent increase from March to April. Both shipments and manufacturers were down 1 percent, respectively, year-over-year. While both shipments and the number of global manufacturers shipping to the U.S. are up over the last two months, concern over a possible double-dip recession remains heightened in recent weeks due to energy prices, high unemployment and several other factors.

Job killer? Proposed legislation in California that would make the state's ports less competitive with other Pacific Rim and Gulf ports is being opposed by The International Warehouse Logistics Association (IWLA). The bill under consideration in the state assembly, called AB 950-Perez and Swanson, would mandate that only one form of labor–employee drivers—may transport truck shipments into and out of the ports of California. The legislation would ban self-employed small business owners from trucking containers into and out of the California ports. Currently, the Port of Long Beach is using a "hybrid" model, which permits free market truckers to compete for drayage against organized drivers. In all cases, however, the port mandates that cleaner fuel burning vehicles be used. "Should California

continued, page 2 >>

Management UPDATE

continued

enact this legislation, it will have the only ports in the United States that mandate that truck owner-operators cannot participate in the movement of freight," said IWLA president and CEO Joel D. Anderson.

USPS says "No Canada." Due to the strike by Canadian Union of Postal Workers, the United States Postal Service officially suspended accepting Canada-bound mail, effective June 18. USPS officials said that once Canada Post resumes operations, the USPS will resume accepting mail for Canada and process any Canadian-destined mail currently held in its network. While regular mail is suspended, shipments sent via the USPS's Global Express Guaranteed service, a premium, date-certain international shipping option with international transportation and delivery by FedEx Express, will continue as scheduled.

Shipper conditions ease but not for long, says FTR. Shippers appear to be dealing with better business conditions than they did about a month ago, according to the recent release of the Shippers' Condition Index (SCI) from FTR Associates. FTR said the most recent SCI is at -5.4 percent compared to -11.4 in May, which was the worst SCI reading of this current economic cycle. The firm attributed the 6-point improvement to a slowdown in freight demand growth due to a lull in economic activity, as well as ongoing delays in Federal trucking regulations like driver hours-of-service. The SCI is based on "all market influences that affect shippers," with a reading of zero reflecting a solid environment and anything below zero reflecting an unfavorable environment.

Port of Boston ups the ante on growth. A new weekly cargo service that will connect the Port of Boston with Halifax, Nova Scotia, went live last month. Dubbed the "New England-Halifax Shuttle," this new service will connect New England-based shippers to 20 major steamship lines and be operated by American Feeder Lines (AFL). This service will call on the Port's Conley Container Terminal each week on Tuesday. Ever since the previous service—Eimskip—ended in 2007 the Port has been working with the Port of Halifax to identify a potential carrier to reinstate the service.

Golden state glimmers. Despite recent signs of a slackening pace of global economic growth, California exporters turned in another impressive performance in April with shipments totaling $12.8 billion, a gain of 14.4 percent over the same month last year, according to an analysis by Beacon Economics of foreign trade data released this week by the U.S. Commerce Department. The state's manufactured exports rose by 10.7 percent, while non-manufactured exports (chiefly raw materials and agricultural products) were up by 21.3 percent. Re-exports, meanwhile, grew by 22.4 percent. On the import side of the ledger, however, business was much less robust as the value of foreign goods entering the U.S. through California's seaports, airports, and border crossings increased by just 9.9 percent over last April.

Airborne chips. The cornerstone of America's tech industry—and a key air cargo commodity—is forecasting increased global sales, and touting pro-business policies for lasting economic recovery. The Semiconductor Industry Association (SIA), representing U.S. leadership in semiconductor manufacturing and design, announced that it has endorsed the World Semiconductor Trade Statistics (WSTS) organization's mid-year global semiconductor sales forecast that has projected global semiconductor sales to grow to $314.4 billion, a 5.4 percent increase for 2011. The current view presents an increased projection over the November 2010 WSTS forecast of 4.5 percent growth for 2011.

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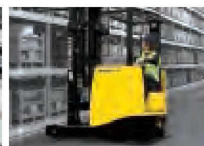
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Cover illustration: Jean-Francois Podevin

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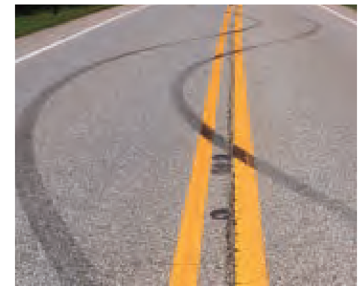

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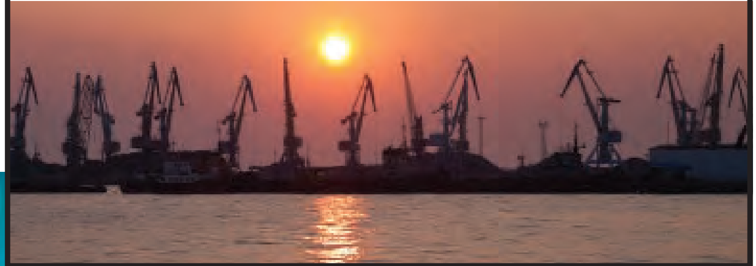

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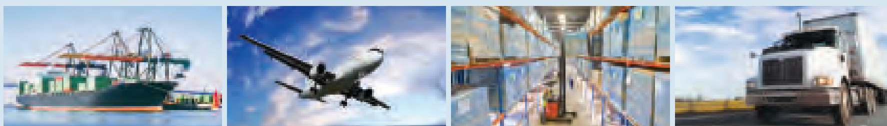

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Shippers in for a bumpy ride

I'M NOT SURE WHO SAID IT, but it's one of my favorite lines when it comes to putting the current market environment into perspective: You don't know where you're going unless you know where you've been.

Enter the 22nd Annual State of Logistics Report (SoL), the most comprehensive examination available of the "year that was" in U.S. transportation and logistics spending. The release of the report sparks our annual investigation into the details of the findings and sends our beat reporters in search of where each transportation mode currently stands in terms of service, capacity, and rates.

In short, it pulls together just about all of our staff and contributing editors in the creation of the definitive market snapshot—and just so happens to be one of my favorite issues of the year.

The SoL report is authored by Roz Wilson, a 30-year industry veteran who's now a senior business analyst with Delcan Consulting where she focuses intensely on the progress of the overall industry. Roz has been working on the report since 1994 and assumed full responsibility in 2004 following the passing of the report's creator, Robert Delaney. Shippers can follow Wilson's blog on the site of our sister publication, *Supply Chain Management Review* (scmr.com).

Executive Editor Patrick Burnson kicks things off in this special issue on page 26 by giving shippers a high-level look at the SoL findings, complete with total spending data on logistics and transportation services over the course of 2010 as well as a look at the economic drivers that got us there. According to Wilson's findings, logistics cost rose to $1.2 trillion, an increase of $114 billion from 2009, falling short of the improvement forecasted.

"Last year was certainly better than 2009, but didn't turn out the way many in the industry projected," Wilson tells Burnson in their in-depth conversation. "The recovery is not being felt evenly throughout the economy, and 2010 did little to shore up precarious carriers who have been hanging on hoping to be rescued by a resurgence…This has been, by far, the most elusive and prolonged recovery than any in our history."

Wilson concludes that logistics and transportation professionals will need to remain alert and ready to adjust at a moment's notice due to the volatility permeating the environment.

And when you throw CSA, unresolved hours-of-service decisions, record fuel prices, and continued globally instability into the mix, Wilson concludes that logistics and transportation professionals will need to remain alert and ready to adjust at a moment's notice due to the volatility permeating the environment. "The savvy logistics innovators have been able to stay a step ahead of the peaks and valleys, but it looks like they're going to be under even more pressure to perform over the next year," says Wilson.

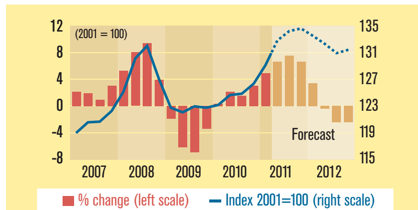
Following the overview of the SoL report, John Schulz brings shippers up to date of the state of the LTL and TL markets; Jeff Berman updates on how business looks on the rails; Burnson gives us the forecast on the high seas; and air cargo correspondent Karen Thuermer explains conditions up in the air.

"No matter how you slice the data, all four major transportation modes are scrambling to make adjustments during this period of volatility, and shippers may be forced to do more with less as a consequence," writes Burnson. "The bottom line is that shippers are going to be in for a bumpy ride."

Michael A. Levans, Group Editorial Director

Comments? E-mail me at mlevans@ehpub.com

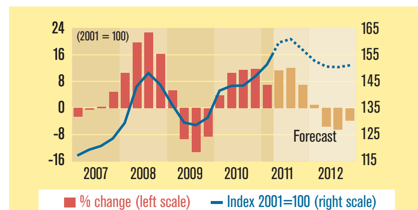
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	3.1	2.7
Truckload	0.7	5.2	7.6
Less-than-truckload	1.3	4.8	8.5
Tanker & other specialized freight	1.3	5.8	5.9

TRUCKING

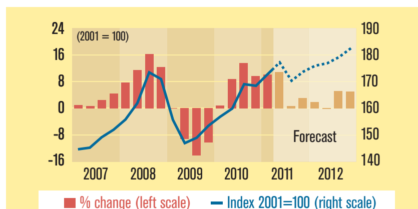
Up 0.9% from a month ago, average prices for all trucking services increased for the 10th consecutive month in May 2011. Year-over-year, aggregate trucking tags climbed at a 3.6% pace as TL and LTL prices each increased 4.5%. With increasing demand and still-high fuel costs exerting inflationary pressures, our 2011 trucking price forecast has been revised upward to 6.4%. That inflation rate rivals the previous largest annual rate increase: 2008's 6.6% price hike. Back then, most transportation modes saw their prices plummet after that extraordinary '08 inflation boom. Indeed, in 2009, trucking prices plunged 4.6%. This time, our forecast model shows trucking prices falling only 0.5% in 2012.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	0.8	9.5	11.6
Chartered air freight & passenger	-9.9	-7.9	3.7
Domestic air courier	1.2	13.9	14.0
International air courier	3.0	18.1	18.1

AIR

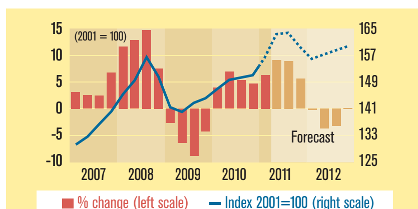
Airliner price data from companies headquartered in the United States reveal a mixed bag of inflationary trends. Air carriers moving mail and freight on scheduled flights managed to increase prices in May, up 0.8% from a month ago and up 11.6% from same-month-year-ago. Expedited courier services also continued their pattern of aggressive price hikes, up 1.7% and 14.9% over the same time periods. Meanwhile, prices for flying freight on chartered U.S.-owned flights plunged 9.4% from a month ago, but remained 3.7% higher than same-month-year-ago. Focusing on airfreight via scheduled flights, our 2011 inflation outlook has been raised from 8% to 9.3%. This will be followed by a 3.8% price decline in 2012.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	0.0	5.0	8.6
Coastal & intercoastal freight	0.7	3.8	12.7
Grt. Lks.-St. Lawrence Seaway	-2.5	6.3	8.9
Inland water freight	0.4	8.8	10.5

WATER

Flooded with a barrage of price hikes, a raging Mississippi river hasn't been the only thing on shippers' minds. Prices charged by barges and other inland waterway vessels increased 0.4% from a month ago and 10.5% from same-month-year-ago. Year-over-year, inland waterway freight prices increased 8.5%. Even worse, according to the Labor Department's survey of U.S. companies, deep sea waterborne freight service prices increased at a year-over-year 15.1% pace in May. Adding it all up, our forecast for the U.S. water transportation services price index has been raised from 5.1% to 6.1% in 2011 and lowered from 4.4% to 2.9% in 2012.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	2.4	9.3	9.9
Intermodal	1.8	12.0	11.8
Carload	2.6	9.3	9.8

RAIL

Bulk carload freight and intermodal rail traffic have been on a fast track this past spring, according to reports from AAR. So, strong monthly price increases and an upward revision in our rail service industry price forecast should come as no surprise. Up 2.4% from a month ago, average prices for all rail transport services increased for the ninth consecutive month in May 2011. Year-over-year, aggregate rail tags soared higher at a 6.3% pace as intermodal and carload rail prices grew 7.4% and 6.2%, respectively. Our trend forecast for rail industry prices has been revised upward from 5.3% to 7.5% for 2011. Looking farther ahead, we predict a mild 1.8% retrenchment in rail prices, on average, in 2012.

Source: Elizabeth Baatz, Thinking Cap Solutions. E-mail: ebaatz@alertdata.com

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NEWS & ANALYSIS

Peak Season prospects are promising according to *LM* survey

Despite lack of a steep inventory re-build, Logistics Management *readers are predicting that a close to normal peak may be on tap this year.*

By Jeff Berman, Group News Editor

FRAMINGHAM, Mass.—When assessing the possibility of how the 2011 Peak Season will play out, it's important to note that the peak of recent years has been anything but normal for a litany of reasons, ranging from the recession, to capacity, to demand issues.

Last year, things appeared to be returning to "normal" on the Peak Season front, as activity was buoyed by a significant inventory re-build coming on the heels of the end of the Great Recession. At the time, the market was witnessing steady if not spectacular volume and freight growth.

But, as it turned out, it did not last too long as things began to shift into neutral and the usual suspects of high unemployment, tight credit, a weak housing market, slow GDP growth, and high fuel prices started to lead the headlines and put a drag on growth.

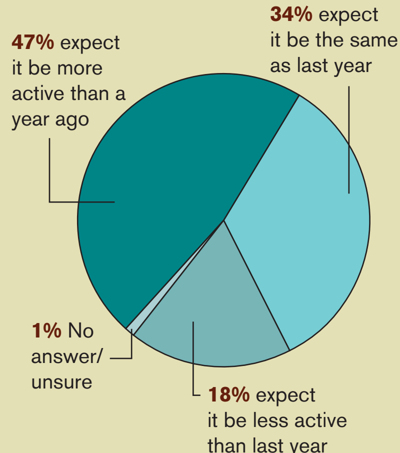
Against this backdrop, however, many shippers and carriers maintain that things are slowly improving, saying that this year's Peak Season could actually resemble something a bit more typical and familiar than the mixed bag we've seen in recent years.

This sentiment was made apparent in the findings of a recent *Logistics Management* readership survey that found 78 percent—or 367 of the 469 respondents—expect a Peak Season this year. Of that 78 percent, 47 percent expect it to be more active than a year ago, 18 percent are calling for it to be less active, and 34 percent are expecting it to be the same as last year.

Among the many reasons respondents expect this year's Peak Season to be more active than a year ago include a slowly improving economy, increased demand, a healthy manufacturing sector, and tight capacity, especially in the trucking sector, among others.

78 percent of respondents expect a Peak Season this year

Of the 78%...



Source: Peerless Media Research Group

Assuming the economy does not go into another recession, lower inventory levels will drive a more typical peak season, a respondent opined, adding that it depends on the direction consumer demand will go over the next two months.

And unlike 2009 or last year, capacity is again very tight, especially for over-the-road transportation. "Many shippers are expecting trucking capacity to be an issue as volume will exceed the supply of qualified carriers," said Sarah Schmitz, logistics manager at Masters Gallery Foods in Plymouth, Wisc. "Safety regulations, operating costs, economic issues, and fuel will also play a role, too. However, we're positioned to succeed through this capacity crunch during Peak Season with an excellent group of core carriers."

Despite economic conditions moderating in recent months, the feeling of optimism among freight transportation and logistics services providers heading into Peak Season has not abated. And this points to a collective positive feeling at a time when the headlines say otherwise.

At the Ports of Los Angeles and

> "Many shippers are expecting trucking capacity to be an issue as volume will exceed the supply of qualified carriers. However, we're positioned to succeed through this capacity crunch during Peak Season with an excellent group of core carriers."
>
> —*Sarah Schmitz, logistics manager, Masters Gallery Foods*

Long Beach, the two highest-volume U.S.-based ports, volumes are up 6.6 percent and 6.6 percent year-to-date through May, respectively; while trucking, rail, and air cargo volumes are showing flat to modest growth levels with Peak Season approaching.

Port of Los Angeles Communications Director Philip Sanfield said he expects a more normal Peak Season this year, with throughput at the port expected to be at its highest in late July and early August.

But aside from the domestic trucking and air cargo markets, there appears to be enough capacity to meet whatever level of demand Peak Season brings this year. "Inbound container rates from Asia remain well below last year's levels, suggesting a more traditional peak shipping season or at least one marked by solid volumes in late summer and fall," wrote BB&T Capital Markets analyst Thom Albrecht in a research note.

And Ben Hackett, president of Hackett and Associates, had a similar, but slightly different view, saying he expects Peak Season to be normal, as there is no shortage of containers and ocean capacity is not being withheld. He noted that the peak is likely to occur during the July-to-September timeframe, arriving about a month earlier as it did a year ago.

But even though many industry stakeholders remain confident in the prospects for Peak Season, many shippers are skeptical about that, given the warning signs that the economy is displaying. Reasons for this ranged from general economic slowness, to fuel prices, to decreased order activity.

"The main concern is if there will be enough capacity to hit peak demand," said Eric Starks, president of freight transportation consultancy FTR Associates. "There may be situations where shippers want to get loads moved and they can't get it done. The economy is still soft, and we are likely to have a tight environment… but regardless of what happens with peak activity, shippers are likely to face rate pressure through the rest of the year, coupled with a tight capacity environment." ☐

REGULATION

Demographics, government scrutiny invigorate driver shortage

WASHINGTON, D.C.—According to an expert in driver compensation, current driver demand and supply are out of whack, while shortages of qualified, safe, and experienced drivers could get worse as the economy improves.

Gordon Klemp, founder and president of the National Transportation Institute (NTI), studies truck driver availability, compensation, turnover, and fleets' ability to attract suitable drivers. He says driver supply has diminished during the past several years and shippers should be prepared to pay higher freight rates to reflect fleets' higher compensation levels to retain adequate driver supply.

"I see it as inevitable," says Klemp. "This is a market that is short of drivers right now, and drivers don't seem to be available in any region in large numbers. We've lost a significant amount of drivers to retirement, and we had an old driver work force back in 2000. Roughly a-third of that driver fleet has reached retirement age."

Klemp isn't the only one forecasting a long-term driver drought. Economist Noel Perry, a much-respected analyst and senior consultant for FTR Associates, is predicting shortages of as many as 400,000 drivers by 2012 if current trends hold.

Here are the factors behind the shortages:

- roughly 25 percent of the driver workforce has been eliminated from the industry during the past 10 years as a result of demographic and health issues;
- the industry has been unable to successfully market itself to minorities and women as a long-term career;
- the Federal Motor Carrier Safety Administration's Compliance, Safety, Accountability (CSA) program will likely reduce the size of the existing driver pool by about 2 percent, or 60,000 of the approximately 3 million long-haul drivers;
- any hours-of-service reduction later this year could cut productivity by another 15 percent, causing fleets to scramble for more qualified drivers;
- and more sophisticated drug testing procedures (using hair follicle testing instead of urinalysis) could eliminate another 10 percent to 15 percent (300,000 to 450,000 drivers) from the driver pool.

Whatever the causes, fleets are already taking steps to keep their trucks "seated" with CSA compliant, drug free drivers. Carrier executives report that the driver shortage currently seems worse in the Northeast and Midwest. But driver pay, which peaked during the boom period that ended in 2006 and fell slightly during the 2008-09 recession, is rising again, according to Klemp.

The increased compensation comes in various forms. They include signing and retention bonuses, increases tied to higher freight rates, and annual pay raises. Klemp's analysis shows company pay for new-hire drivers with three years of experience is now averaging 35.5 cents a mile, just off its peak of 36 cents in 2006, but well up from the 31.2 cents a mile average in 2005. Flatbed drivers average 36 cents a mile now, up from 32.6 in 2005. Reefer drivers are at 34.5 now, up from 30 cents a mile in 2005.

Still, that only translates into starting pay of about $36,000 annually for a person driving 100,000 miles a year. "It's not a high-paying job," Klemp says. "That is good and bad. It has held costs down, but we've reached a point where the driver pool is dwindling quickly."

The "most logical way" to combat this is to "change the lifestyle and change the pay" of the drivers," Klemp added.

Fleets have already started doing the former but reducing the amount of time away from home, increasing the number of short-haul, and dedicated routes and other amenities.

"Fleets have made significant strides in improving lifestyle improvements, providing home-time options that as near as five years ago were unheard of," said Klemp. "Drivers are home every other week, so it's more dedicated and less irregular."

Since the recession, driver turnover has improved from more than 100 percent in some truckload fleets to about 53 percent today, according to Klemp's figures. "Historically, turnover is not good. If you compare turnover to any other industry, you'd say it's horrible. But 53 percent is actually a lot better than it was. Still, it's terribly expensive to recruit a driver, somewhere north of $5,000 to recruit and train a driver."

"We went into the recession with a driver shortage and capacity restraints and we're going to come out with an exacerbated driver shortage and a more severe capacity crunch," predicts Rosalyn Wilson, author of the State of Logistics report.

Her advice for shippers? "This would be a good time to be building or mending relationship with your trucking firms," Wilson says. "It is going to be all about relationships and carriers having the luxury of choosing whom they do business with."

—John D. Schulz, Contributing Editor

LTL

YRC resuming partial Teamsters pension payments

OVERLAND PARK, Kan.—Those LTL shippers yearning for an optimistic sign from YRC Worldwide's four-year bout with bankruptcy and cessation may get a ray of hope from the LTL giant's resumption of partial payments to its Teamsters' pension plans after a 23-month hiatus.

Due to its tenuous financial position and losses in excess of $2.5 billion in the last four years, YRC suspended payments to the Teamsters' financially troubled Central States pension plan on July 9, 2009. It resumed them in June, but the contributions are 75 percent less than they had been—$76 per employee per week instead of $280 per employee

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per week under the old agreement.

Reaction among YRC's more than 25,000 Teamsters—whose average age is about 60—was basically half a loaf (or in this case, a quarter of a loaf) is better than no loaf.

"It's certainly better than nothing," said Ken Paff, organizer for the dissident Teamsters for a Democratic Union (TDU), which has been chiding Teamsters President James. P. "Jim" Hoffa for not securing a better deal for his members. However, Paff does not believe the partial payment is any panacea for YRC workers.

"Workers deserved to have information earlier, especially about as something as important as their pension," said Paff. "You're alienating your own people from your union, which is not a good practice."

Last February 28, YRC Worldwide and the Teamsters National Freight Industry Negotiating Committee (TINFC) gave the "OK" to another restructuring plan to YRC to avoid bankruptcy and improve liquidity. Under that deal, YRC was granted permission to reduce contributions to 25 percent of the previous rate until March 2015 for all of its pension funds. Paff believes the actual contribution is actually slightly less than 25 percent because of raises granted since the old agreement expired.

By comparison, unionized long-haul rival ABF Freight System, a unit of Arkansas Best Corp. has been paying the "full boat" contribution of $342 a week to its 7,000 or so Teamster employees.

ABF Corp. recently sued YRC for alleged breach of contract over terms of the National Masters Freight Agreement, claiming both parties should be required to make the same payments for pension. Arkansas Best Corp. lost, and YRC now enjoys a major cost savings—the difference between $70 and $342 weekly per employee benefits for pension contributions.

The difference saves YRC approximately $225 million annually. YRC's renewed pension contributions is expected to cost the company approximately $75 million a year—$75 million that it may actually earn this year.

Because of closures and restructuring, YRC has sharply curtailed its geographic coverage in some regions. It now is a $4.4 billion enterprise, compared to nearly $10 billion revenue just five years ago. By comparison, when Yellow Corp. bought Roadway Corp. in 2003 for nearly $1 billion, both long-haul unionized companies were reporting $3 billion in revenue apiece.

YRC has since ceded its market leader position in the $27.5 billion LTL market, according to figures compiled by trucking analyst firm SJ Consulting. FedEx Freight now is the market leader with 16.1 percent market share, Con-way next at 11 percent, and then

YRC National at 9.6 percent and YRC Regional at 4.6 percent.

David G. Ross, the respected trucking analyst for Stifel Nicolaus, has long warned that YRC is on the verge of bankruptcy or Chapter 7 liquidation. He recently labeled YRC's financial picture as "dire" and "unsustainable" without a significant restructuring.

—John D. Schulz, Contributing Editor

SHIPMENTS

Port Tracker report calls for volume pickup later this summer

WASHINGTON, D.C.—The Port Tracker report by the National Retail Federation (NRF) and Hackett Associates is calling for import cargo volume at major United States-based container ports to remain at current levels through July, followed by an increase thereafter in subsequent months.

Port Tracker is calling for first half 2011 volumes to be up 7.2 percent, just ahead of last month's 7.1 percent projection. This would be 5 percent better than the first half of 2010. In 2010, the report said there was a total of 14.7 million twenty-foot equivalent units (TEU) moved—a 16 percent gain over 2009, which was largely achieved due to 2009's 12.7 million TEU serving as the lowest annual tally since 2003.

The ports surveyed in the report include Los Angeles/Long Beach, Oakland, Tacoma, Seattle, New York/New Jersey, Hampton Roads, Charleston, and Savannah. The most recent month for which data is available in the report is April, coming in at 1.22 million TEU and the 17th straight month to show an annual gain after a 28-month stretch of declines that ended in December 2009.

April also fared better on a sequential basis compared to March's 1.08 million TEU. The decline in March from February was expected, due to the Chinese New Year occurring in early February, with many shipments loaded 10 days to two weeks prior to that, making it a stronger February than usual.

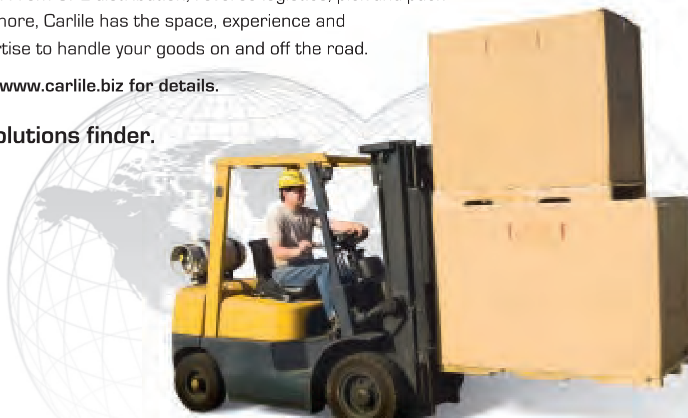
"The economy is having an impact on these numbers, with retail sales down and consumers paying more to eat and drive, which is forcing them to be cautious," said Ben Hackett, president of Hackett Associates. "The overall tendency is for growth to slow down with increased consumer caution."

Hackett also explained that the growing U.S. deficit and the need to increase debt limits—coupled with more possible federal budget cuts—are also factoring into TEU growth in the near and long term. And issues with exchange rates with a declining dollar, he said, will force import prices to rise and put downward pressure on retail goods.

The Port Tracker report is calling for May to come in at 1.27 million TEU for a 0.33 percent annual gain. June is expected to reach 1.33 million TEU for a 1 percent increase. July is projected to hit 1.39 million TEU for a 0.5 percent decrease. August is expected to hit 1.47 million TEU for a 3 percent increase, and September is pegged at 1.49 million TEU for a 12 percent gain. October is expected to be up 19 percent at 1.54 million TEU.

"With rising gas prices and challenges in the labor and housing markets, consumer spending has slowed and retailers have adjusted their inventory levels accordingly," said Jonathan Gold, NRF's vice president for supply chain and customs policy. "We are confident that long-term consumer demand will grow, and that imports will pick up significantly in the fall."

—Jeff Berman, Group News Editor



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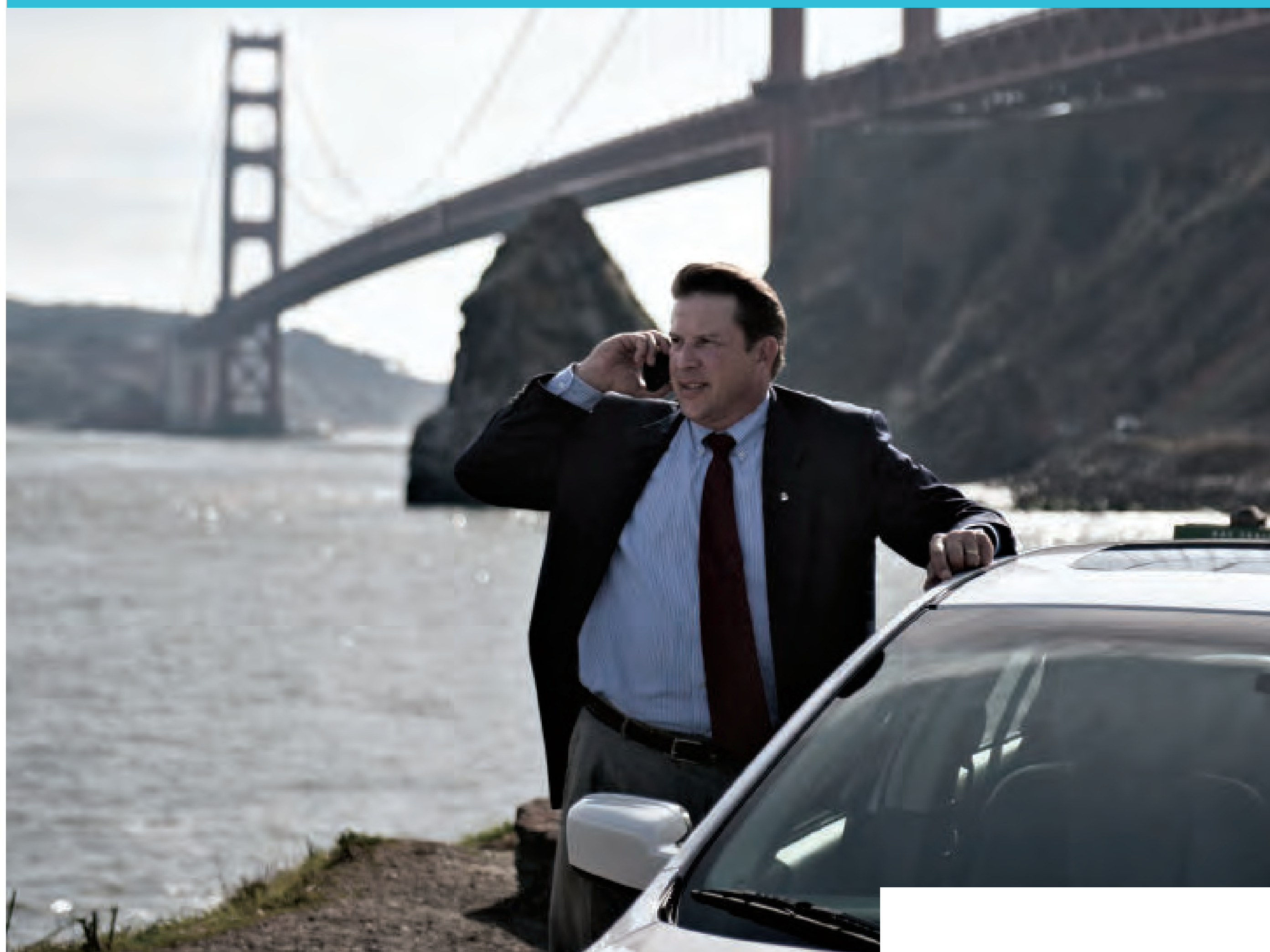

MAERSK LINE

PRICING

Moore on

Step up to lower LTL prices

EARLIER THIS YEAR I WROTE ABOUT the winds of change affecting LTL pricing in North America. If shippers and carriers are going to take advantage of pricing deregulation then they have to work together to disaggregate, cooperate, and automate.

If things were not complicated enough already, we now have new hours of service (HOS) rules and carbon footprints driving costs—more than the old National Motor Freight Classification (NMFC) was ever designed to handle. In fact, shippers and carriers are putting the NMFC out to pasture.

These days, the best carriers are moving to differentiate their pricing through options from which shippers may choose. Examples include pallet cube, a.m.-delivery services, metro area options, fast payment, and backhaul. By doing this, the carrier can let the shipper customize a level of service while getting the best price; but the shipper has to step up their game and enable price selection based upon cube, day or week, special services, and insurance coverage.

A few shippers have recently told me that their transportation management system (TMS) just can't handle this much variation in price and service selection. Well, I suggest a business case review to see what that old TMS is really costing you. This may lead to a new TMS that is not forcing you to dumb down the rates to a simple FAK rate table.

And if you've been paying maintenance fees (many in the 20 percent range) to your software provider and they haven't been keeping up the research and development pace, then you and your CIO need to have a little chat. TMS is now a tool available as Software as a Service (SaaS) and for very low cost per shipment.

But before you shake up the technology in house, make sure your carrier can handle dynamic pricing changes with their system. If either party does not have the ability to calculate landed price based on a variety of negotiated variables, the result will be invoice rejects and lots of money for the post-auditors as they clean up the mess.

I have seen shippers and carriers share the same system for executing orders with a single dynamic rating engine loaded with rates that reflect the cost variables of insurance, cube, fuel by geographic area, day of week, and even time of day. Shippers report up to 15 percent savings utilizing such dynamic pricing engines.

Before you shake up the technology in house, make sure your carrier can handle dynamic pricing changes with their system.

In a related trend, we're seeing collaboration between shippers and carriers to increase the geographic and load density of freight. This is allowing the carriers to optimize their utilization of equipment while complying with HOS rules.

Today it's routine for two or more shippers to discuss commitment to combined loads, cross docking, and regional consolidation. If you're not in the game, call your industrial neighbors and ask them which carriers they use. Actually, I usually ask the drivers at the loading dock where else they are picking up today—that can be an eye opener.

First, call your carriers and ask them how you can help raise density in your market. Next, call your customers and suppliers and ask them about collaborating in helping optimize transportation for environmental and cost reasons. Be aware, not all carriers and shippers have the technology or skills to understand and have visibility to their network of loads. If your business partner does not, encourage them to step up their game so you can both benefit from the new dynamic pricing market in LTL freight. ☐

Peter Moore is a program faculty member at the University of Tennessee Center for Executive Education, adjunct professor at The University of South Carolina-Beaufort, and vice president of Celerant Consulting, a supply chain advisory firm. Peter can be reached at peter.moore@celerantconsulting.com.

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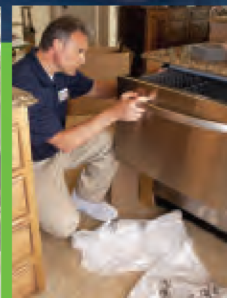
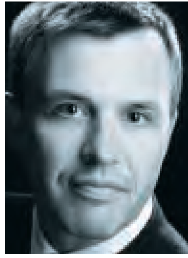


EXCELLENCE

Pearson on



Hallmarks of procurement mastery

PROCUREMENT IS ONE OF MANY AREAS vying for a supply chain executive's time and attention. But when you consider the variety and depth of benefits that high performance in procurement can deliver, perhaps a little extra time and attention are warranted. That conclusion is one of several suggested by Accenture's recent research into the nature and tenets of procurement mastery.

Similar to the study performed in 2007, Accenture researchers wanted to learn more about what it means to excel in procurement—what "procurement masters" do differently and the extent to which they are rewarded for their efforts.

Toward this end, researchers analyzed responses from 432 procurement organizations in a range of industries, and combined that feedback with Accenture's library of leading practices. Masters (less than 20 percent of the survey population) were identified based on the high level of cost savings they secure for their companies and the exceptional innovation they apply to procurement. Here are some of the things procurement masters do right, accompanied by real-world examples.

REVERE STRATEGY

Findings revealed 77 percent of masters have developed formal procurement strategies that integrate fully with overall corporate strategy, as well as with the strategies of relevant business functions such as finance, operations, and engineering.

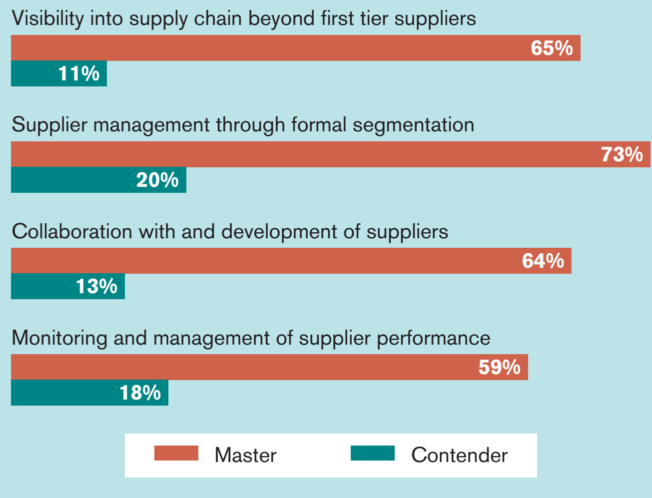
Example: A European vehicle manufacturer redefined the role of its procurement organization by aligning procurement more closely with the company's business strategy, mapping procurement activities and capabilities against product lifecycle stages, and charting relevant capabilities, processes, and technologies. Significant savings resulted from the enhanced ability to involve procurement earlier in the product development process.

Mark Pearson is the managing director of the Accenture's Supply Chain Management practice. He has worked in supply chain for more than 20 years and has extensive international experience, particularly in Europe, Asia, and Russia. Based in Munich, Mark can be reached at mark.h.pearson@accenture.com

BUILD BETTER RELATIONSHIPS

Masters understand the importance of collaborating with suppliers and holding them to consistently high standards. Consider that 67 percent of masters collaborate with more than just first-tier suppliers, compared to 11 percent of "contenders" (non masters). Masters were also found to be four times more likely to actively monitor supplier performance.

Example: A supplier-development initiative at an apparel company helped boost production efficiency at suppliers' plants by up to 30 percent. The program emphasized four things: measuring supplier performance, building social responsibility, increasing production efficiency, and raising quality. Establishment of key performance indicators and a tailored data collection approach were also key.



EXCEL AT SOURCING & CATEGORY MANAGEMENT

Procurement masters are better able to leverage spend within and outside their companies. They naturally seek the best deals by capturing volume discounts, but they also strive to improve their organizations' demand-management capabilities and to refine long-term category strategies that drive ongoing cost improvements and ensure contract controls and compliance.

Example: In recent years, the procurement group at a manufacturer of industrial communications materials has excelled at analyzing supply markets, managing suppliers, and negotiating effectively. With this solid foundation, the procurement organization was able to move to the next level: helping the company reduce product complexity by spurring tighter relationships among product development, R&D, and sourcing. These collaborations cut SKUs by more than 50 percent and underlying components by almost 40 percent.

MANAGE SPEND MORE EFFECTIVELY

Masters work extra hard to ensure that spend is tightly monitored throughout the requisition-to-pay process. This implies use of a controlled, managed process supported by clear buying channel strategies and maximum data visibility. Eighty one percent of masters (versus 34 percent of contenders) use leading-edge tools to integrate the end-to-end source-to-pay process.

Example: By leveraging vendor-managed replenishment technology, a telecommunications services company reduced inventory costs, freed up working capital, and slashed obsolescence expenses. The resulting $30 million savings could not have happened without the company's rigorous focus on seamless requisition-to-pay processes within procurement and across the supply chain.

DO MORE WITH HUMAN CAPITAL

Even masters have a way to go in this area. However, it's clear that leading practices (accomplished far more by masters than by contenders) include launching management-by-objective initiatives, developing formal talent-attraction and career-opportunity programs, and fielding teams focused solely on supplier and procurement innovation.

Example: A decentralized resources-extraction corporation recognized the need to become a more integrated business. Procurement was one group selected to spearhead this change, which included organization design, competency management, recruiting, training, and skills assessment. Numerous company factions have successfully followed procurement's lead.

LOOKING AHEAD

Procurement masters have numerous advantages that other companies' procurement organizations cannot currently match. The latter group can work to close the gap by focusing on the five areas discussed in this article.

But those actions may not be enough to overtake the leaders because masters are also seeking new ways to add value and increase their competitive advantage in areas such as risk management and advanced analytics. Still, procurement improvements are always possible and, more often than not, evident on the bottom line. ☐

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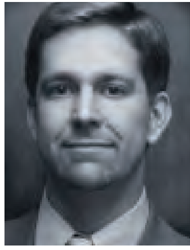


OPEC meeting reveals further degeneration of the MENA region

UPON EXITING THE MOST RECENT Organization of Petroleum Exporting Countries (OPEC) summit, the visibly frustrated Saudi Oil Minister, Mr. Ali Naimi, proclaimed it to be "one of the worst meetings we have ever had."

In the lead up to the meeting, oil traders had come to believe that OPEC would increase production quotas to cover the shortfall of light, sweet Libyan crude going into Europe's peak demand season. This led traders to the conclusion that tight markets would loosen, and as a consequence, oil traders would bid down the price for "paper barrels" (oil futures) by a couple of dollars.

While hindsight may be 20/20, foresight is rarely better than 50/50—and in this case, the market was wrong. OPEC failed to revise production quotas, and upon learning of this decision, traders quickly bid the price back up. A couple days later, Saudi Arabia announced that they would break with OPEC by lifting production above their allotted quota.

We feel compelled to support the pro-democracy movements, but require the unperturbed flow of oil out of the region.

Oil traders reacted by bidding the price back down, and in the end, prices had settled back to previous levels as if the summit had never happened. But the story isn't over until all the holes in the plot have been filled, and all the nagging questions answered.

Why, for instance, would Saudi Arabia announce that they planned to lift production above OPEC's stated quota? Why not just covertly lift production? After all, when it comes to the Middle East, oil markets are deliberately opaque; and, in fact, OPEC quotas are regularly flouted.

And, from a purely financial perspective, such bold announcements make no sense at all. If we assume that Saudi Arabia exports somewhere around 6.25 million barrels of oil per day, we can easily calculate that, at $100 per barrel, Saudi Arabia nets a daily petro-income of $625 million. If they were to covertly lift production by 200,000 barrels per day, Saudi income would increase by $20 million. By announcing their intentions to lift production, however, the price slid $3 per barrel, and the Saudi daily income was reduced by roughly $19 million per day, a 3 percent decline assuming exports at 6.25 million barrels per day.

Derik Andreoli, Ph.D.c. is the Senior Analyst at Mercator International, LLC. He welcomes any comments or questions, and can be contacted at dandreoli@mercatorintl.com.

To maintain a stable income under this scenario, Saudi exports would need to be lifted by roughly 200,000 barrels per day. Hence, the Saudi announcement makes little sense from a business perspective. Of course the Saudi Arabian Oil Company is more than a business, it is the fulcrum of Saudi Arabia's geopolitical power, and being the only nation with significant spare production capacity provides the Saudis with a point of leverage that they use to their political advantage.

And there is no more important time to manipulate these geopolitical levers than now.

Saudi Arabia is not immune to the wave of populist uprisings sparked by high food prices, high unemployment, and corruption that has crashed onto the shores of Egypt, Libya, Yemen, Bahrain, Syria, and so on. In fact, Saudi Arabia shares a common border with Egypt, Yemen, and Bahrain, and is situated just across the Arabian Gulf (Persian Gulf in the West) from Iran. While geographically proximate to Shia-ruled Iran, Sunni-ruled Saudi Arabia could hardly be more distant in ideological/theological terms.

The Shia-Sunni rift dates back to the death of the Prophet Muhammad and the disagreement over successorship which followed. The Shia believed that the leadership should stay within the family while the Sunnis believed that a group of elites should decide who the rightful successor should be. Over the years, Sunni and Shia elites have fanned the flames of division for political gain, and the fire has become so hot that there is little hope that the flames will be extinguished any time soon.

Though the majority of the Saudi population is Sunni, Shia predominate in the oil-rich Eastern section of the country. Similarly, Shiites comprise the majority of the populations of Kuwait, the UAE, and Bahrain, yet these border states are, like Saudi Arabia, ruled by Sunnis.

This is of particular concern because the flames of the populist uprisings are being stoked by Shia dominated, Shia-ruled Iran who hopes that the populist uprisings will create a power vacuum that will be Shia filled.

This is why Saudi Arabia sent troops into Bahrain. This is also why Yemen President Ali Abdullah Saleh was evacuated to Saudi Arabia after being wounded in a rocket attack after months of peaceful protests gave way to violence. The threat of regime change in such a geopolitically charged environment also explains why Riyadh has committed to doling out over $130 billion for housing and social programs aimed at easing rising domestic ten-

sions—and why the Saudis require high oil prices to balance their federal budget.

In order to buttress their regime, Saudi rulers have maintained ties with the U.S., despite the entrenched divisions between the House of Saud and the United States.

Preserving the power relations that secure the flow of oil further explains why in October of last year, the U.S. penned an arms deal worth $60 billion (the largest single deal ever) with Saudi Arabia and have been training an elite Saudi military force tasked with protecting vital oil infrastructure.

Perhaps more importantly, the rising threat to the House of Saud has, in fact, granted the Saudis an important bargaining chip in the debate over the establishment of an internationally recognized Palestinian state. Riyadh has threatened "disastrous consequences" should the U.S. veto the UN recognition of a Palestinian state. Such a recognition, however, would significantly weaken U.S.-Israeli relations, and one might go so far as to interpret this as a divide-and-conquer strategy. At any rate, for these and other reasons, the Saudi-U.S. relationship remains tenuous at best.

Regime preservation explains why Mr. Naimi left the June OPEC meeting visibly frustrated, proclaiming it to be the worst meeting ever, and why Saudi Arabia announced that they were going to break with the OPEC quota system.

Though the decline in oil prices brought about by the Saudi announcement hit their own bottom line, it also hit Iran's bottom line. This is a small price to pay, however, given that Mr. Naimi's words and actions buttressed the U.S.-Saudi relationship while at the same time driving the wedge between the U.S. and Iran ever deeper.

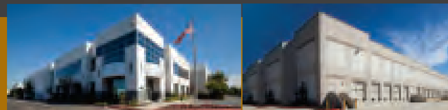
But don't take my word for it, consider instead the reaction of Congressman Edward Markey (D) who proclaimed: "OPEC, led by Iran and Venezuela, has snubbed its nose at the U.S. and the rest of the western nations."

Of course the situation in Syria highlights the fact that Iran faces a similar threat to the one faced by Saudi Arabia. In both countries, domestic discontent and a yearning for democracy threatens to topple the ruling regimes. Consequently the U.S. finds itself confronted with competing objectives and mired in the complexities of Middle East geopolitics.

We feel compelled to support the pro-democracy movements, but require the unperturbed flow of oil out of the region. We need look no further than to Libya to see that regime change—be it to a functioning democracy or from one authoritarian regime to another—threatens the flow of oil. Hence reconciling these competing objectives requires finesse and more than a bit of luck.

Bringing this argument full circle, while the most recent OPEC meeting had little lasting impact on oil prices, the real story is found in the analysis above.

A troubling truth is revealed by considering Mr. Naimi's words and actions in the context of the ongoing MENA crisis. Like an x-ray reveals asymptomatic osteoporosis, Mr. Naimi's words and actions reveal just how fractured and fragile the Middle East has become, and by extension just how perilous our economic recovery remains. □



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22nd ANNUAL STATE OF LOGISTICS REPORT

A bumpy ride

The cost of the U.S. business logistics system jumped up 10.4 percent in 2010, making up more than half of the preceding year's decline. But don't expect gains like this to continue as the economy begins to slow and all four transportation modes scramble to make adjustments during this period of unprecedented volatility.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

When the transportation and logistics market's chief prognosticator, analyst Rosalyn Wilson of Declan Consulting, gave *Logistics Management* some early insight into her findings for the 22nd Annual State of Logistics Report (SoL), she was still wrestling with a title.

"We had given some thought to calling this report 'Coming in on a wing and a prayer,' but felt that would be too negative," says Wilson. "After more thought we decided to call it "Navigating through the recovery." But after the official release in mid-June in an event sponsored by the Council of Supply Chain Management Professionals (CSCMP) and Penske, it was clear that no matter how you slice and dice the data she's collected, shippers are going to be in for bumpy ride in terms of rates, capacity, and service over the next six to eight months.

"An unstable rate and capacity environment hurt both sides, including the freight intermediaries, and it's not going to get much better for a while," says Wilson.

In her SoL report, which is designed to neatly summarize the previous calendar year in logistics and transportation spending, Wilson says that 2010 was certainly a better year for carriers and third party logistics providers (3PLs) than 2009—but it didn't turn out to be all that we had hoped. The recovery from the Great Recession has proven to be more elusive and prolonged than any other in our history, and the slow growth presented another year of challenges for the logistics industry, she notes.

"Volumes firmed up early in 2010, but dropped off in the second half," says Wilson. "Demand for capacity began to equalize with available space in many sectors, but rates continued to be constrained. Inventories began to climb , and retailers pulled back on their ordering because spending did not expand as expected."

According to Wilson, the economy began to falter in the second half of 2010 as the contribution from the various stimulus packages, put in place to jumpstart the first year of the recovery, began to fade. "We may have hit a wall," says Wilson.

All four major transportation modes are scrambling to make adjustments during this period of volatility, and shippers may be forced to do more with less as a consequence.

ECONOMY: THWARTED CHARGE IN 2010

Macroeconomic trends have a profound impact on the growth of logistics and transportation markets. And, consumers are not leading the charge as they have in other economic recoveries due to the fragile state of their personal wealth, says Wilson.

"Unemployment is still pervasive, new jobs are being created at a rate that does not even cover population growth, the housing market hasn't rebounded in most areas, foreclosures continue, home prices are still deflated, and fuel and food prices have been steadily rising," says Wilson. "Personal net worth plummeted for most people, causing them to adjust their view of the economy and their spending patterns," she adds.

In the three years prior to the recession, the personal savings rate in the U.S. averaged 1.9 percent, which is in line with a steady decline over the last 20 years, according to the SoL report. Since the beginning of 2008 and through 2010, the personal savings rate has averaged 5.3 percent, which is still significantly lower than the 9 percent to 10 percent average before 1990. Consumer spending and retail sales grew modestly in 2010, not igniting as expected. Most of the increase in retail sales came in the form of sales of fuel, automobiles, and food.

Manufacturing and business spending were the bright spots during much of 2010. Industrial production was up 5.3 percent in 2010, after declining 11.2 percent the year before. Industrial production and manufacturing for businesses was up, while consumer goods production was almost flat. Capacity utilization increased from 69.2 percent in 2009 to 74.5 percent in 2010, while consumer spending and retail sales grew modestly.

"These were all signs that the economy was strengthening, but by mid-year there was a slowdown and it never fully reached that level of momentum again," says Wilson. And there were other encouraging stories as we entered 2011, says Wilson. For

Jean-Francois Podevin

The US business logistics system cost is the equivalent of 8.3% of current GDP in 2010

$ billions

Item	$ billions	Change
Carrying costs - $2.064 trillion all business inventory		
Interest	4	
Taxes, Obsolescence, Depreciation, Insurance	280	Up 10.3%
Warehousing	112	
Subtotal	**396**	
Transportation costs		
Motor carriers		
Truck (Intercity)	403	
Truck (Local)	189	
Subtotal	**592**	
Other carriers		Up 10.5%
Railroads	60	
Water (International 28, Domestic 5)	33	
Oil pipelines	10	
Air (International 17, Domestic 16)	33	
Forwarders	32	
Subtotal	**168**	
Shipper related costs	9	
Logistics administration	47	
TOTAL LOGISTICS COST	**1,211**	Up 10.4%

Source: CSCMP's Annual State of Logistics Report

instance, the auto industry was rebounding, and recently Chrysler paid off its TARP loans seven years ahead of the due date.

"Given the weather conditions in most of the country at the start of 2011, most measures would call the first quarter a strong one for the logistics industry," says Wilson. "In the last few months of 2011, however, volumes have been eroding, along with other key economic indicators, and there are signs that the economy is stalling and predictions for a strong 2011 may fall short."

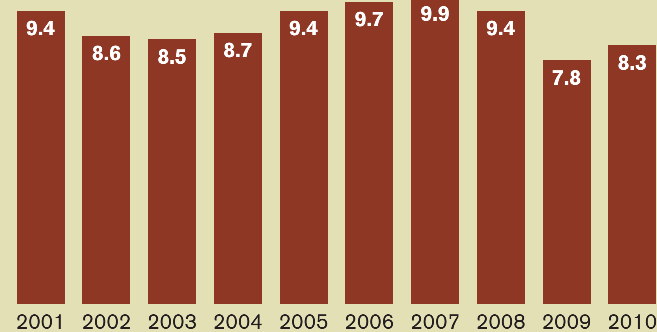
HARD NUMBERS

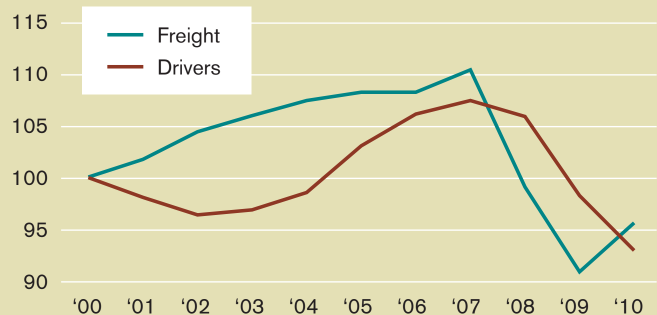
Total logistics costs rose 10.4 percent in 2010 after tumbling in both 2008 and 2009. Transportation costs are up over 10 percent

in 2010 due to higher freight volumes, fuel surcharges, and for some modes, rate hikes. Interest rates continued to drop, while inventory levels inched back up. Lower warehouse costs were more than offset by increases in other inventory related costs (insurance, depreciation, taxes, and obsolescence) resulting in a 10.3 percent gain in inventory carrying costs.

"Logistics as a percent of our nominal GDP moved back up to 8.3 percent, still lower than any year but 2009," says Wilson. Wilson also notes that volumes have only recovered about half the recession losses, yet industry capacity, particularly in truck and air, is close to being fully engaged. The recession had a "devastating effect" on total industry capacity, which is much lower than it was in 2007, the report says.

"The recovery is not being felt evenly in the economy, and 2010 did little to shore up precarious carriers who have been hanging on hoping to be rescued by a resurgence," says Wilson.





Business inventories increased in all quarters except the second, which experienced a slight dip. By the third quarter, inventory levels were heading back to levels experienced at the start of the recession, ending the year at the highest point since third quarter 2008. The average investment in all business inventories (agriculture, mining, construction, services, manufacturing, wholesale, and retail trade) increased to almost $2.1 trillion in 2010, a jump of $199 billion as stock was replenished in the first quarter of 2011.

Holiday shopping volumes were reportedly higher than in 2009, but final sales figures showed that people weren't buying as much as anticipated. And, says Wilson, many waited until late in the season to buy to take advantage of discounted merchandise.

"UGLY" DETAILS

Wilson concludes her report on a decidedly candid and downbeat note, telling us that "the ugly details" show how vulnerable the recovery actually is, which will translate into one of the more volatile periods shippers and carriers have ever seen.

The first quarter 2011 GDP growth rate was revised downward in the latest release, with preliminary estimates coming in at just 1.8 percent, well short of the 3.1 percent projection. Consumer spending was revised downward, hitting a six-month low while inventories climbed higher.

"The current economic picture is not indicative of a strong recovery," she says, "in fact it appears that the recovery is losing momentum. Originally robust estimates for second quarter GDP have been cut dramatically to between 2.5 and 3 percent."

She points to the fact that the public sector continues to shed jobs as budgets are chopped. A recent survey by ADP, the payroll processing company, showed a sharp decline in the rate of job creation at private businesses. Firms added only 38,000 jobs in May, compared with 179,000 jobs added in April. Also, the number of people filing new claims for unemployment insurance benefits is on the rise again. Pervasive unemployment undercuts GDP growth by reducing consumer demand, which in turn makes it harder to create jobs.

"It used to take six months for the employment situation to get back to normal after a recession," says Wilson. "This time around the Federal Reserve Board Chairman has said that he expects it could take as long as five years to get back to a pre-recession level."

Although many industry observers are predicting strengthening of logistics services as we head to the second half of 2011, Wilson says that the pieces are not falling into place to support anything more than weak growth.

For example, retail sales rose in May, but were well below what had been forecast for May and lower than April's numbers. The Consumer Confidence Index dropped sharply in May from 66.0 to 60.8, reflecting consumer uncertainty and rising pessimism about inflation, their income prospects, and the housing market.

This uncertainty is translating into a slowdown in purchasing. Business spending and manufacturing are declining as well. New orders and production declined in May, 10.7 and 9.8 percent respectively. The Purchasing Managers Index recorded its steepest drop since 1984, plunging 6.9 percent in May. Imports and exports are also forecast to be flat or even a little down in May.

Wilson says starkly: "By the end of 2011 we will see a different looking freight picture. Shippers may be dodging about in a search for capacity during sudden surges in demand, and carriers will continue to look for a sustainable revenue model.

"Which scenario will play out?" she asks. "It could go either way at this point, but my money is on the innovators in the logistics industry who are navigating through the recovery." □

—Patrick Burnson is Executive Editor of Logistics Management

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Less-than-truckload:
Time to cash in on rates?

Less-than-truckload (LTL) trucking has been less than profitable for many of the top carriers in this $27.5 billion sector that has been plagued by overcapacity, high overhead costs, and staggering losses from its largest players.

The parent companies of the two largest national, unionized LTL carriers—YRC Worldwide and Arkansas Best Corp.—continue to bleed red ink even as the national economy and U.S. manufacturing sector recovers from the worst recession in 70 years.

YRC has lost in excess of $2.7 billion the last four years, including $102 million in the first quarter this year. Its chief rival, ABF Freight System, contributed to a $12.8 million loss to its parent company in the first quarter, on top of $158 million in losses the two previous years.

"We see evidence that the economy, though not increasing as quickly as we would have hoped, still is growing," outgoing YRC Chairman and CEO Bill Zollars said when releasing his company's first quarter financial report. "The economy is soaking up the excess capacity."

Analysts estimate that there still could be as much as 15 percent excess capacity in the LTL sector. That would be roughly the amount of capacity operated by YRC's national and regional units. Some analysts, including David Ross of Stifel Nicolaus, are predicting that YRC could run out of sufficient cash by the middle of next year unless there is a surge in freight demand and rates rise dramatically.

Zollars and other YRC officials scoff at such predictions, and insist their financial restructuring is on target.

The YRC national and regional carriers endured the worst pricing yields in the LTL industry, according to figures compiled by Stifel Nicolaus. While sector leader Old Dominion Freight Line—the only publicly held LTL carrier with an operating ratio as low as 91—enjoyed more than 11 percent year-over-year yield improvement in the first quarter of this year, the YRC units and ABF could manage yield improvements of barely 2 percent year-over-year. Zollars recently told analysts and investors that would change soon.

Zollars said YRC is getting pickier on its accounts and said the days of rock-bottom LTL rates, circa 2007-2010, are over. "It's always a judgment call. Every account is different," he said. "We think we are making good decisions around volume and price."

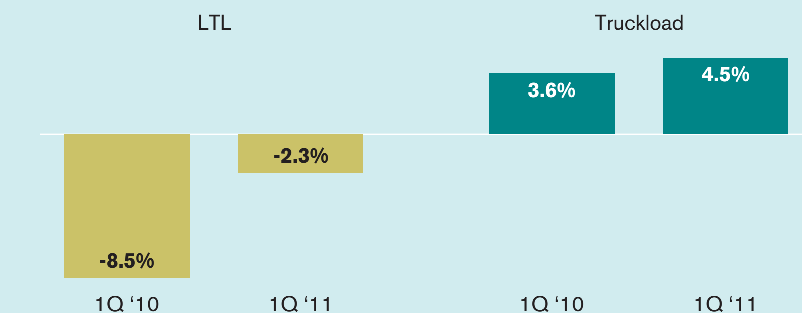
Most of the LTL carriers are in the same boat on pricing as YRC, although not suffering nearly the level of losses. Except for Old Dominion, most of the other leading LTLs had lackluster first quarter figures. UPS Freight had an operating ratio of around 100, ABF was a 105.6, and Vitran was at 99.4. Through strong cost controls, Con-way reported a 97.3 operating ratio, its best quarter since the recession began, according to their financial reports.

Con-way's operation could be a harbinger for the sector. Its year-over-year improvement in the first quarter was because of a conscious decision by top management to jettison some unprofitable accounts. Con-way and other carriers are getting tougher and insisting on full freight surcharges, which are currently running about 22 percent to 24 percent in the LTL space.

In the LTL industry, the mantra for profitability remains freight density, cost control, and pricing discipline. If LTL carriers can understand their costs, they can price business to earn an appropriate return.

Carrier executives say privately that the time to gain solid returns is now. That's because once pricing is firm and established and adequate returns are assured, then carriers can benefit from additional volumes by being able to leverage their network density. This occurs when freight demand is robust, which historically has been in the late second, third, and early fourth quarters of a calendar year. In other words, the future is now.

—By John D. Schulz, Contributing Editor



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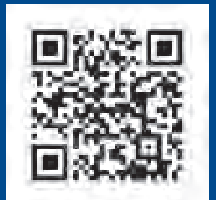


Truckload:
Tight capacity, more regulation, major concerns

The truckload (TL) sector, which supplies some 95 percent of capacity in the $403 billion for-hire intercity trucking industry, is enjoying a renaissance after three years of financial doldrums.

Profitability is up at the major truckload carriers. When analysts consider top TL carriers among the publicly held operations, names like Swift Transportation, Werner Enterprises, U.S. Xpress, J.B. Hunt, Knight Transportation, and Celadon Group often top their recommendations.

"The overall health of the truckload sector has improved year over year," says Mark Rourke, president of truckload services for privately held Schneider National. "We're continuing to expand our regional truckload business footprint as well as bring new transportation solutions to the marketplace."

As the latest data shows, the TL carriers have enjoyed a higher weighted-average operating margin for the most recent quarters than their colleagues in the less-than-truckload sector. Overall, TL carriers have enjoyed a 4.5 percent average increase in margins in the first quarter of 2011, compared with a 2.3 percent decline among LTL carriers surveyed by SJ Consulting, a leading trucking analyst firm.

"Why is that? They all use the same trucks. They all pay the same for fuel. They all use the same drivers," remarks Satish Jindel, principal of the firm. The answer lies in the nimbleness of the non-union TL carriers. They're able to shed capacity faster than LTL carriers, which often have complex hub-and-spoke terminal networks requiring significantly more overhead than TL carriers, which go point-to-point with their loads.

But even with those inherent advantages, many TL carriers are concerned about possible threats to capacity and costs of doing business.

An increase in container ship transloading also could affect domestic capacity, according to some intermodal experts and analysts. A global container shortage is causing some ocean carriers to transload an increasing percentage of their shipments at the ports of Long Beach and Los Angeles.

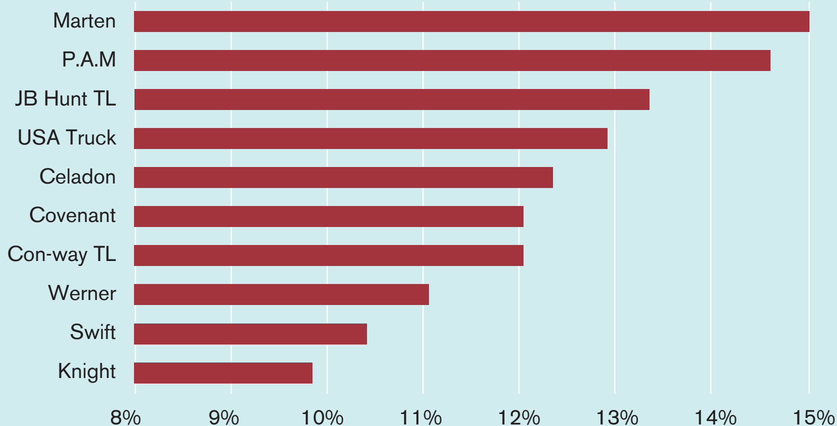
This, in turn, is causing a spike in long-haul, over-the-road freight demand for TL carriers out of Southern California. This would in turn put further pressure on capacity, which is excellent for major players in the TL market such as Hunt, Swift, and Celadon, but could have an adverse effect on overall TL capacity, executives say privately.

Then there's the unclear regulatory environment for trucking. The Obama administration, through its Federal Motor Carrier Safety Administration, is proposing what could be a double whammy through stricter enforcement of driver standards and a potential reduction of driving hours for those drivers who do survive the tougher government scrutiny.

The government's Compliance, Safety, Accountability (CSA) program could disqualify as many as 150,000 drivers. Potentially, a one-hour reduction in driving limits could exacerbate capacity. Until that rule is proposed later this year, the entire TL sector is on pins and needles

"Regulations continue to provide uncertainty for carriers and shippers alike," Schneider's Rourke says. "The effects of CSA on driver capacity are already being felt."

—By John D. Schulz, Contributing Editor



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Rail:
Steady growth on the rails

As the economic recovery has been riding waves of both optimism and anxiety, there's been one stable constant in the freight transportation environment: the railroad sector.

But before we examine the rails at the mid-point of 2011, we're best served by considering where the market was at this point in 2010—and that was in major recovery mode on the heels of a dismal 2009.

Since that time, it's fair to say that things are better from a volume perspective. However, volumes are still not back to the pre-recession levels witnessed in 2007. Those levels, say industry experts, won't be back for a while. But since the first half of 2010, the railroad industry appears to be back on track, with solid earnings and strong pricing clearly intact. As for volumes, rail carloads and intermodal containers and trailers are up roughly 4 percent and 10 percent, respectively, year-over-year for the first half of 2011.

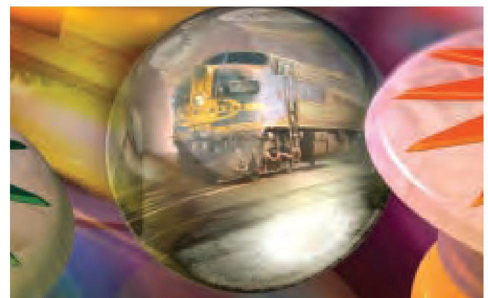
"There is improved volume and improved confidence that as an economy we have moved past recovery into whatever the next phase will be—perhaps a slow growth phase," said Tony Hatch, principal of New York-based ABH Consulting. "A year ago at this time there were questions about how sustainable things really were due to issues like the short-term economic stimulus and Cash for Clunkers."

Independent of the pace in railroad volume growth, it's clear that the uptick in confidence on the rails is also playing out in terms of capital expenditure investments being doled out by Class I railroads.

In March, the Association of American Railroads (AAR) stated that U.S.-based freight railroads are planning to spend $12 billion in capital expenditures in 2011, following a $10.7 billion investment in 2010. The 2011 tally would be a new record, with 2010 being the current record for railroad capital expenditures, according to the AAR.

"The railroad industry is not on the sidelines," said AAR President and CEO Ed Hamberger. "This industry has been in the game. The $12 billion investment for 2011 follows three years where we averaged $10 billion per year; and up to this year they were the three highest years on record for capital expenditures, which occurred during the middle of the worst recession since the Great Depression."

Hamberger also noted that these capital expenditure investments are funded by private capital and not taxpayer funding, adding that the railroad industry owns, maintains, improves, and pays taxes on their rights-of-way. Other costs comprised in capital expenditures include



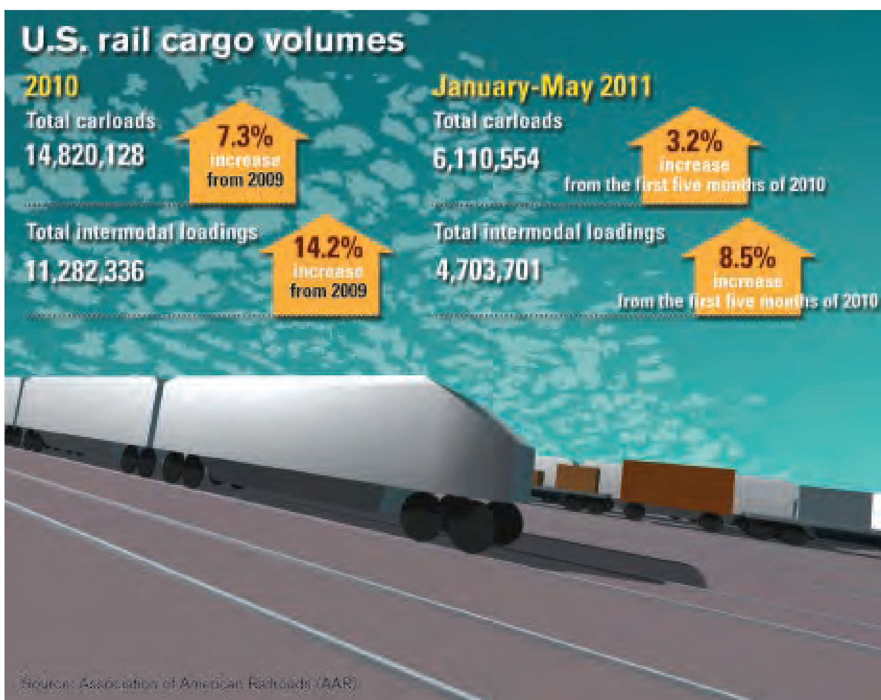
maintenance, with 20 cents of every revenue dollar going back into maintaining, expanding, and improving the U.S. rail network over the last 10 years.

Coupled with these expenses allocated towards rail investment is pricing power, which the railroads have had on a consistent basis going back to 2003. As has been the case for years, rail shippers have fought rate increases tooth and nail, citing how they are not getting enough "bang" for their railroad buck. This is especially true for captive shippers.

How the stand-off over rates between rail carriers and shippers plays out is far from settled, given the holding pattern that legislative efforts to re-regulate the industry—and re-authorize the STB—is in. However, rail shippers continue to make it clear that they are not satisfied with the status quo.

"Railroads have pricing power with captive shippers, and it is take it or leave it with rates," said Mike Snovitch, executive director of the Alliance for Rail Competition. "They are stuck with what railroads charge and filing a rate challenge case with the STB is a long costly process. Rail shippers want and need a truly friendly bill to help better meet their needs."

—By Jeff Berman, Group News Editor



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Ocean:
Carriers get their house in order

According to analysts at IHS Global Insight, the housing crisis and continued decline in residential construction is making a major impact on containerized shipping volumes.

In his latest white paper, IHS Global Insight analyst Andrei Roudoi notes that housing market indicators, such as new starts and permits last spring, were "quite unfavorable," and there is a substantial risk that residential construction and furniture imports will underperform.

"While falling unemployment will probably stimulate demand for housing, tighter lending regulations, as well as declining house prices combined with rising prices for construction materials, may lead to another decline in real residential construction in 2011," says Roudoi.

Following furniture, wearing apparel and fruits and vegetables are the next two most significant containerized import categories. In 2010, wearing apparel accounted for 6.6 percent of total containerized exports, while fruits and vegetables had a 6.3 percent share.

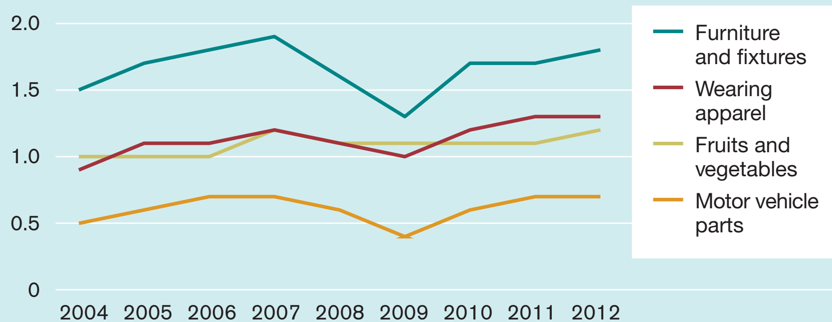
"The recession affected these categories less than many others, such as furniture, metal products, or motor vehicle parts," says Roudoi. "In 2010, wearing apparel imports rose 12.5 percent, exceeding the pre-recession high." Fruit and vegetable imports inched up 2 percent, remaining slightly below the pre-recession peak. IHS Global Insight forecasts that imports of these commodities will grow this year, 7.6 percent and 2.7 percent, respectively.

Furthermore, IHS maintains that world trade has mostly recovered from the recession. Analysts estimate that after plunging 10 percent in 2009, global trade volume (measured in tons) increased 8.5 percent in 2010. In 2011, it is expected to grow 6.9 percent.

"Thus, the volume will exceed the pre-recession level, and the recovery will be generally completed," says Roudoi. "At the same time, volumes in some major trade segments—notably, U.S. containerized import volume—will remain below the pre-recession numbers."

Ocean carrier executives, meanwhile, are taking nothing for granted, and the tired old cliché "thinking outside the box" takes on new meaning when invoked by the world's leading container shipping company.

In addition, the container shipping industry may be standing on the brink of an "era-defining moment" as it faces fundamental challenges, says Maersk Line CEO, Eivind Kolding. He adds that if carriers are to secure their right to operate in the future, the industry needs to change now.



He notes that containerization—often referred to as the engine of globalization—revolutionized world trade. The potential it unlocked by connecting producers and consumers across the world enabled both shipping lines and their customers to develop their businesses in ways that previously had seemed impossible.

"However, container shipping is also the story of an established business model that often disappoints customers: one in every two containers is late, shipping lines can be complex

to do business with, and the industry, even while being the most environmentally-friendly transportation mode, still lacks transparency and common goals," Kolding says.

With examples from the automotive, aviation, portable music players, and mobile phone industries, Kolding adds that just because an industry is established, it may only be a "few years from being completely overtaken" by new technology.

"Market and customer behavior is forcing companies to never lose sight of what customers really want—including the needs that they are not even aware of."

Finally, Kolding asks: "Why not see these as fantastic opportunities? What if we could guarantee that cargo would be on time, every time? What if placing a shipping order was as easy as buying an airline ticket? What if the shipping industry was known for beating environmental expectations—not struggling to meet them?"

—By Patrick Burnson, Executive Editor

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Air Freight:

Challenges remain, but carriers prove resilient

When the Council of Supply Chain Management Professionals (CSCMP) released its State of Logistics Report for 2011 in Washington, DC on June 15, its message was not as upbeat across the transportation modes as was originally thought. For air cargo, the report found that despite the fact that air freight revenues rose 11.2 percent in 2010, the sector hit the wall by the end of the year.

Most of that growth was in first half 2010, but by mid-year it retracted as retailers, facing disappointing sales projections, turned largely to moving shipments by ocean.

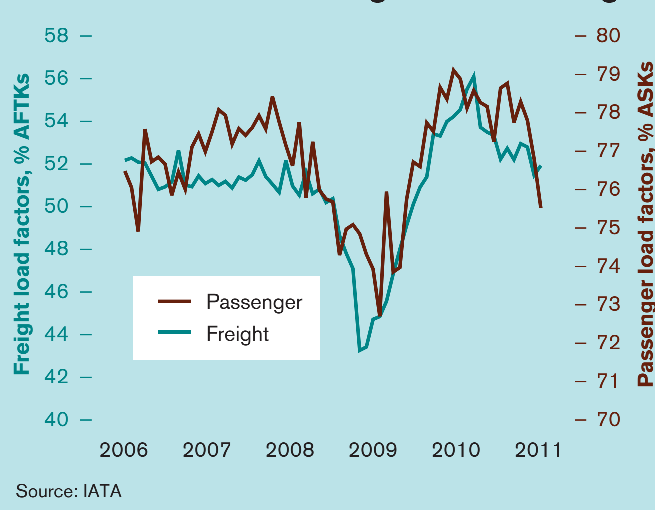
In its own data, the International Air Transport Association (IATA) refers to last year's results as "the best year of the decade" whereby air freight saw an $18 billion profit, but realized a "pathetic" 3.2 percent profit margin.

CSCMP reports that air carriers continued to see business dwindle during the first half of 2011 as customers, facing higher transportation costs due to rising oil prices, continued to go with cheaper options whenever possible. During his State of the Industry speech on June 6, departing IATA Director General Giovanni Bisignani revealed IATA expects the profit margin for 2011 to be a very disappointing 0.7 percent with overall profits coming in at $4 billion, down a hefty 78 percent from 2010.

Events affecting the air cargo industry this year seem almost biblical: tornados, earthquakes, tsunamis, terrorism, wars, revolutions, volcanoes, as well as failing economies and continued sky rocketing oil prices. Already in the first half of 2011, the industry is being hit by more disasters, say nothing of oil spiking above $110 per barrel.

Nevertheless, it's worth noting that the airline industry still shows remarkable resilience. "A decade ago, we needed oil below $25 just to break even," says Bisignani. "It's a tribute to every airline that we expect a $4 billion profit at today's oil prices."

The Japanese earthquake and subsequent tsunami alone knocked 1 percent off global traffic and depressed an important market that generates 10 percent of the industry's $600 billion in revenues, reports IATA. The political unrest in the Middle East and North Africa has slowed growth in both regions and resulted in oil prices skyrocketing.



Last year, with oil at $79.4 per barrel, the fuel bill was slated at $139 billion. This year the forecast is for oil to average $110 a barrel with that total fuel bill hitting $176 billion. Consequently, IATA predicts cargo growth to fall from 18.3 percent in 2010 to 5.5 percent in 2011 with yield growth at 4 percent.

In fact, yields remain an issue on several major trade lanes, particularly North America and Asia as well as Europe and Asia where countries have trade imbalances with China. Consequently, carriers flying westbound from North America and eastbound from Europe to Asia are unable to operate to capacity.

"This puts pressure on yields," says Joe Lawrence, president of Airline Services International, Inc. "For airlines to gain revenue they need to raise prices." But with more cargo moving to steamship lines, air carriers are lowering rates to try and attract business.

Still there are markets where yields remain high. IATA reports that with China today representing 26 percent of all global air traffic, China is air cargo's largest market. IATA expects that by 2014 China will represent 30 percent of all global traffic, a fact that will continue to have an impact on rates and yields. In fact, both China and India are growing by double digits.

And, South America, Australia, and South Africa are seeing increased cargo demands. In Brazil, demand for goods outstrips supply. Many manufacturers in China, particularly in the high tech sector, ship goods there by air.

Despite today's challenges, today's air carriers are positioning themselves for these markets by acquiring more modern and fuel efficient fleets. Carriers are also integrating with other airlines to gain capacity. Lufthansa, for example, integrated with Austrian Airlines, re-integrated its grounded MD-11 fleet, and increased the fleet of AeroLogic to eight aircraft.

"This year we have announced the order for five Boeing 777 freighters that will be delivered between 2013 and 2015," reports Michael Goentgens, Lufthansa Cargo spokesman.

—By Karen E. Thuermer, Contributing Editor

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SARGENTO'S finely-aged upgrade

By setting reasonable goals, the converter and packager of cheese products upgraded its antiquated TMS, reduced its LTL shipments by nearly 30 percent, and brought its carrier relations into the 21st century.

BY **JOHN D. SCHULZ,** CONTRIBUTING EDITOR

About five years ago, Sargento Foods realized that its distribution planning, like a fine block of Swiss, had some holes in it. So, the Wisconsin-based, family-owned converter and packager of cheese products decided it was time to make some long-term, strategic changes.

Like many shippers in the early 2000s, Sargento was coping with an antiquated transportation management system (TMS) that did not have the ability to meet the company's changing operational requirements. For example, when its logistics team was planning its orders for shipments, the old software did so without considering cost, service, or contractual shipments to its carriers. Accessorial costs were simply ignored.

"Simply put, there were operational problems," says Keith Hartlaub, general manager of Sargento Transportation, LLC. Chief among those issues was the inability of the old software to take orders and combine them into efficient, point-to-point truckload moves.

Instead, loads moved through more inefficient and costly less-than-truckload (LTL) moves by carriers that were not always the most efficient on any particular lane. Carrier selection was hampered, and Sargento had a difficult time creating an accurate recording of its actual transportation costs.

It was time to change TMS providers, and by January 2006, Sargento was well into its search. "We knew we had to spend money to be more efficient," says Hartlaub, "but the question was how."

At the time, says Hartlaub, the key to Sargento's decision-making process was whether to build its own TMS system or go with a Web-based, on-demand solution. Upfront costs were certainly a major factor, but so was the ability of on-demand providers to add innovations cheaply in this rapidly changing technology.

"We thought the world of on-demand software was the way to go," recalls Hartlaub. That was due to the potential for an on-demand solution to build efficiencies into Sargento's

Sargento has a 36-truck private fleet covering the eastern half of the country which the company wanted retain for many multi-stop routes out of its three Wisconsin manufacturing sites.

network quickly and economically. "I was familiar with a company called Nistrevo Corp in Eden Prairie, Minn. It was one of five software providers interviewed, and finally was the winning bid," says Hartlaub. Nistrevo has since been purchased by IBM, and rebranded as Sterling Transportation Management System, an IBM company.

And while there was a big cultural change in store for Sargento and its transportation department, the results speak for themselves. The company has been able to reduce its LTL shipments by nearly 30 percent due to the new system that allows Sargento's logistics team to "bundle" those more expensive LTL moves into full truckload moves.

There was also a 60 percent savings in overhead costs by automating freight bill payments, as well as an improved allocation of costs to more accurately reflect the precise cost of each shipment. Now, let's take a look at how Hartlaub and the Sargento logistics teams was able to realize these savings.

GOAL SETTING

After the decision was made to change in the early months of 2006, Sargento set three major goals. First, it wanted an on-demand solution that was connected to a larger logistics network. Second, the team demanded strong TMS functionality that included comprehensive automated freight billing capabilities. And third, they knew the over all outcome of the upgrade needed to improved overall logistics efficiency.

"It was intense, but fairly painless," says Hartlaub of the three-month implementation period that ran from April to June 2006. Some work processes had to be changed, and there were many employee hours spent entering data before Sargento went live with the TMS. Previously, much reporting was done on paper, but now needed to be entered into computers. Phones and faxes were out, online data was in; employees had to be retrained; and trucking partners had to be informed of Sargento's new way of conducting business.

Somewhat complicating matters was the fact Sargento has a 36-truck private fleet covering the eastern half of the country. It wanted to retain that private fleet for many multi-stop routes out of its three Wisconsin manufacturing sites in Kiel, Hilbert, and its headquarters in Plymouth. The majority of its distribution is out of Plymouth, about 60 miles south of Green Bay, and the company ships about 200 loads a week out of that location.

Under the old system, there was much more manual input, with freight invoices being done by hand. That system was scrapped in exchange for new electronic data interchange (EDI). There is much less faxing and phone calls and more keystrokes. And while these cultural changes were necessary, Hartlaub says he was sensitive to employees' resistance to too much change too quickly.

So the decision was made to keep all employees well informed of why these changes were made. They were told Sargento's business practices had to change to become more efficient in the highly competitive world of food distribution.

"All people are adverse to change to some degree," says Hartlaub. "There was a little bit of resistance that we had to get past, but it only took a short period of time. Our staff openly accepted it and moved on."

Now that the integration and cultural hurdles over the new TMS methodology were cleared, Sargento enjoys much more efficient shipment planning, execution, and freight payment abilities. It's now able to track performance of its more than 30 carriers, allowing them to identify areas to cut costs and increase efficiencies. Hartlaub's team is also able to use the system for visibility and planning purposes and to accurately allocate transportation costs to its customers.

"It really is night and day," says Hartlaub. "We understand the cost of a load before it's tendered. We see the same rates as the carrier, fuel surcharges are identified up front, and when accessorials

occur, the carriers can add that to the invoice—but we know it in real time. We have the opportunity to approve or reject it up front and that has reduced billing errors substantially."

BOTTOM LINE BENEFITS

In shipping nearly 24 million pounds of Sargento products every month, the company has enjoyed what it says is a substantial reduction in administrative costs through the automated freight payment function of their new TMS. The logistics organization has improved its allocation of cost, and, in a major operational benefit, it has seen a 15 percent drop in the cost per pound of their shipments—excluding the cost of fuel.

Much of that has occurred by converting more costly LTL moves into full TL shipments. In fact, Sargento's percentage of LTL shipments has dropped by nearly a 30 percent, according to Hartlaub.

"The opportunity for a company like Sargento to build TL moves should be second nature to an organization, but sometimes it's hard to see the forest for the trees," says Gene Nusekabel, transportation and logistics industry marketing manager for Sterling Commerce, Sargento's TMS provider. "TMS is only as good as the planning you can do."

"Shippers need to have a clear understanding of how their operation functions as well as the attributes of the systems they're considering. There are systems with more robust options, but you may not need them."

—Keith Hartlaub, general manager of Sargento Transportation, LLC

With calls for a capacity crunch coming in trucking due to tougher new rules to crack down on unsafe drivers, Nusekabel says the real winners among shippers will be those with ability to access capacity during peak periods. "With capacity what it is, companies need their transportation arm to get out there as soon as possible to lock in equipment," he says. "Planning is a commitment, and the real leaders in transportation planning need to be thinking about that. You can have a great supply chain, but it's only going to be as great as your transportation carriers. If you don't have capacity, you don't have anything."

ROAD AHEAD

Sargento is currently working on incorporating the movement of inbound freight into its TMS. According to Hartlaub, appointments and dock scheduling will begin later this year.

"At first, the initial reaction among our carriers was one of trepidation," says Hartlaub. "Some of them were not computer savvy, but now they have to monitor e-mail and the Web. For a lot of carriers that was new stuff, but they've grown and evolved."

Throughout the process, Hartlaub says he is proud that none of his 30 or so trucking partners has changed. But what has changed is the efficiency of his carrier network. "Things have gotten better and better…now it's seamless," he says of his carrier relations. "They like the way we interact with them."

Nusekabel says the future is bright from the TMS provider side as well. He says fully automated TMS systems are only in use in 30 percent to 40 percent of logistics operations. "That indicates to us there is still a huge opportunity out there," he says. Larger companies seem more willing to make the commitment of automating their systems, but the payback can be just as large on a percentage basis for smaller companies, he adds.

Hartlaub's advice for shippers considering making the jump to an automated TMS system is simple: Do your homework; do the necessary advance planning; get support of upper management; and understand what you want it to accomplish.

"Shippers need to have a clear understanding of how their operation functions as well as the attributes of the systems they're considering," adds Hartlaub. "There are systems with more robust options, but you may not need them. We're not a $200 billion transportation company, but we got what we needed." ☐

John D. Schulz is a Contributing Editor to Logistics Management

Do you have an appointment?

The next phase of Sargento Foods' application with its new TMS will be dock and appointment scheduling for inbound and outbound trucks at their facilities.

"Right now we are first come, first served," says Sargento Transportation General Manager Keith Hartlaub. "We're going to be tightening up our appointment times for our carriers. Pickup and deliveries will be scheduled."

The idea is to create greater efficiencies at Sargento's overall supply chain operations. "We want to know exactly when the carriers are going to be here. It helps manage docks and the warehouse more efficiently."

The plans call for dock appointment scheduling starting this fall, Hartlaub says. With that, Sargento will join a growing list of shippers who require advance scheduling from their trucking partners.

"Greater efficiency was the driving force, but we're a growing company," Hartlaub explains. "Along with that sales growth comes infrastructure growth; and sometimes your infrastructure growth is outpaced by the sales growth."

To keep up with influx, Hartlaub said Sargento needed a better understanding of when their trucks would be onsite. Appointment scheduling allows more efficiency in that regard, he said.

"Instead of 35 trucks coming here all at once, hopefully we can spread that load throughout the day," he says. "We can push that down the line so that we don't have to pick and stage that particular order until we know that truck is coming. It helps manage our warehouse staff. Our carriers know it's coming, and seem to be okay with it."

– By John D. Schulz, Contributing Editor

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Zotos: High-volume beauty

Over the past several years, the hair care manufacturer his tied its core business systems into a WMS that's allowed it to effectively manage its high-volume shipping operation—and the results have been simply gorgeous.

BY **BRIDGET MCCREA,** CONTRIBUTING EDITOR

Managing a high-volume shipping operation is no easy task, especially when the warehouse floor in question is a bustling operation where employees not only pick-and-pack furiously in order to meet tight deadlines, but they also make and package the products themselves.

That's exactly what the atmosphere is like at Darien, Conn.-based Zotos International's distribution center, which serves as a finished goods warehouse. "It's a very busy and volatile operation," says Harvey Cohen, manager of information technology for Zotos, a wholly-owned subsidiary of Shiseido Cosmetics.

Specializing in products like shampoo, conditioner, color, and perm hair care products, Zotos combines LTL, TL, and parcel shipments when delivering the goods to its end customers, which include beauty salons and beauty supply stores. "In some cases we ship directly to the customers' DCs," says Cohen, "and in others we ship right to the individual salons and retail locations."

The bulk of those shipments are being moved domestically, although Zotos does serve an international audience. About seven years ago, the firm's warehouse manager decided the existing warehouse management system (WMS) wasn't meeting the growing manufacturer's volume needs, nor was it organizing shipments effectively.

Zotos' WMS at the time was a bolt-on system that was added onto its enterprise-wide IBM MAPICS (now owned by Infor) setup. And while that system allowed the warehouse manager to track the number of daily shipments and pallet loads being moved around, it lacked functionalities and efficiencies that a growing, high-volume shipping enterprise requires.

"We needed a WMS system that could handle TL, LTL, and parcel shipping in very high volumes," says Cohen. "The setup we were using just wasn't working for all of the different types of shipping that we do."

Daniel Guidera

Cohen says Zotos went in search of a WMS that could monitor and track basic functions like the loading and dispatching of trucks, combined with real-time inventory visibility "at a very granular level." According to Cohen, the latter would allow Zotos to fulfill orders confidently, knowing that the specific hair care products were in stock and ready to load onto tractor-trailers for delivery to the customer.

HUNTING FOR A SOLUTION

After putting out an RFP and entertaining bids from various vendors seven years ago, in 2005 Zotos found the WMS it was looking for. Cohen says the RFP that stood out was extremely detailed, covered the high-volume aspect of Zotos' operations and the manufacturer's functional requirements in depth, and also laid out the manufacturer's business process and efficiency goals as they pertained to shipping activities, picking-and-packing, and labor management.

"In the end, RedPrairie scored the highest," says Cohen, "so we went with that solution." The WMS, which was subsequently upgraded in 2009, was installed specifically to manage outbound freight that is moved out of Zotos' DCs as well as to its end customers. "From a model standpoint, we see the WMS as a bolt-on for our core business system," Cohen explains. "MAPICS runs our entire business—from order entry to production."

That core business system "passes off" information to the WMS at two critical junctures: when inventory comes off of the production line and moves into the finished goods warehouse; and when a customer service specialist enters an order into the core system and checks inventory against the WMS.

"We know what we have in stock for any part number or SKU because the two systems are in sync, and because they communicate with each other at those two points," says Cohen. From there, the WMS enables more efficient organization of shipments, and allows employees to aggregate orders into as few deliveries as possible.

"We do lot of LTL shipments, and the technology allows us to plan everything out and cover multiple customers that are located in the same geographic region," says Cohen. This function is known as "wave management," in that it allows the company to send out waves of orders that hit several customers in a single shipment, thus saving on labor, fuel, and truck repairs/maintenance.

The WMS is also active on the warehouse floor, where forklift operations depend on its accuracy and inventory visibility capabilities to enable their movements throughout the day. "They can get right to a specific pallet or case, and bring it back to a staging location where the shipment is put together and loaded onto a truck," says Cohen. "The WMS then issues the bills of lading and other paperwork, and a truck is dispatched automatically."

Cohen says that automated process, which involves the WMS and the company's core business system, was designed by RedPrairie and Zotos. "There is no such interface between MAPICS and RedPrairie, but we've designed a rigorous system that gives us control at every stage of the game," says Cohen. "We've been able to ship a larger volume than we've ever handled before, and all without adding additional staff."

Boxes of hair care products make their way through Zotos' finished goods warehouse in Geneva, N.Y.

CUSTOMIZATION COUNTS

Zotos' software customizations didn't end with the MAPICS-WMS integration. In fact, Cohen says that manufacturer has asked for several modifications since the system was installed in 2005. Those changes don't support Zotos' initial intentions to use the WMS out of the box, says Cohen, whose team learned quickly that no standard software package could meet all of its warehouse management needs.

"Nothing out there could accommodate the tracking of materials that we wanted to be able to track at all times," says Cohen. For example, the firm uses a process called "diversion coding" to combat the inappropriate sales of its high-end products to unauthorized companies or individuals.

"We were finding that our high-end products were being sold in the low-end marketplace," says Cohen. Zotos manages this problem through diversion coding. When an order comes in for such goods, the inventory is picked and sent to a corporate division that puts a secret code on the individual bottles.

The challenge is that the bottles can't be coded prior to shipping mass quantities of the product to the firm's DC because not all bottles in a specific lot are candidates for the diversion coding. "It's a very specific process, and one that brought to light a particular business need that a standard WMS package couldn't help us with," says Cohen. "But other than that, we're using the WMS right out of the box. Ultimately, it's a much better solution that what we were using previously."

Zotos hasn't measured the pure ROI of its WMS investment, but Cohen says the manufacturer's shipping volumes have

A batch of Joico salon hair care products are ready to be packaged and shipped out to retail locations nationwide.

"gone up considerably" since 2005. Those increases translate into sales, Cohen says, and they have allowed Zotos to meet customer expectations without having to add warehouse staff.

"Without the benefit of a specific ROI matrix, I can say we've gained efficiencies from the software," says Cohen. "It has allowed us to flexibly distribute work to our [truck] drivers, change priorities on the fly, and react to changing business needs." If a large customer has a last-minute order change, for example, and even if the shipment is ready to roll away from the dock, Zotos can switch out the products quickly and remain on schedule.

"Using our WMS, we can make last-minute changes all the way up until the truck leaves the dock," says Cohen. "We've never had that much flexibility so close to the shipment window before."

THE FOUR-YEAR LEAP

Zotos' upgrade to the 2009 version of the WMS posed a few challenges for the manufacturer, but also gave it cross-docking and other capabilities that it previously lacked. According to Cohen, the upgrade allowed the firm to take product from its production lines and immediately place it on a truck for shipment—unlike traditional cross-docking that enables the movement of materials from one truck to another while both are still at the dock.

"The cross-docking was a great functional addition to our warehouse that was not in the first version of our WMS," says Cohen. The upgrade also helped Zotos stay ahead of the curve, technology-wise, seeing that it was using a four-year-old system that lacked some of the newer WMS capabilities. And while the case for an upgrade was clear, Cohen says the process itself was time consuming and cumbersome.

"We had some difficulties with the upgrade, but we've also had a lot of successes because of it," says Cohen. "Going forward, we're thinking we want to stay closer to what our vendor is doing in the marketplace. We won't upgrade every year, but maybe every other year in order to avoid having to make another big, four-year leap."

To shippers that are considering a new WMS, or an upgrade to an existing system, Cohen says his best advice is to "get in sync with the vendor" and make sure it's aware of the "ins and outs" of your warehouse and transportation operations, as well as your existing, core business computing systems.

"If you want a WMS that's modeled to your satisfaction, you really have to be upfront with the software vendor," says Cohen. "Know whether you have to modify anything before you get into it, figure out how much those modifications will cost, and exactly how those changes will impact the way the software works." ☐

Bridget McCrea is a Contributing Editor to Logistics Management

Logistics & the Law 2011: Unintended consequences

The elimination of required cargo liability insurance by the FMCSA now forces shippers to independently verify the existence of the policy and nature of the coverage held by their carriers. Sound time-consuming? Our transportation law expert offers some practical advice.

BY **BRENT WM. PRIMUS,** J.D.

In the 2009 installment of our ongoing series that we call "Logistics & the Law," we explored two critical areas of law in an article entitled "Cargo Insurance & Vicarious Liability: Two cautionary tales." (www.transportlawtexts.com/two-tales.php). This year we focus on cargo liability insurance and the fact that as of March 21, 2011, motor carriers and surface freight forwarders (other than household goods carriers and household goods freight forwarders) are no longer required to have any cargo liability insurance at all.

In particular we will examine the unintended consequences for shippers of these changes in the government's regulatory scheme for motor carriers. As stated by Rob Norton, former economics editor of *Fortune* magazine: "The law of unintended consequences, often cited but rarely defined, is that actions of people—and especially of government—always have effects that are unanticipated or unintended. Economists and other social scientists have heeded its power for centuries; for just as long, politicians and popular opinion have largely ignored it."[1]

In other words, while readers of *Logistics Management* may be generally aware that there is no longer a requirement for cargo liability insurance, they will overlook the unintended consequences at their economic peril. In this article we will explain these consequences and explore ways for shippers to minimize or avoid the resulting new perils.

ELIMINATION OF THE REQUIREMENT FOR CARGO LIABILITY INSURANCE

Since 1937, motor common carriers, but not contract carriers, have been required by federal law to maintain at least $5,000 in cargo liability insurance and to file proof thereof with the Interstate Commerce Commission (ICC) and subsequently the Federal Motor Carrier Safety Administration (FMCSA). The requirement was extended to surface freight forwarders in 1944.

The purpose of cargo liability insurance is to provide insurance coverage to a trucking company to insure its obligations under another federal law—colloquially known as the "Carmack Amendment"—for liability to the owner of property damaged or delayed while being transported by the trucking company.

To make sure that this coverage was not illusory, the federal regulation also required the policy to have something known as the BMC-32 endorsement. The purpose of this endorsement was to ensure that there would indeed be at least $5,000 in coverage regardless of any otherwise applicable exclusion or deductible amount.

In June 2005, the FMCSA solicited comments to its proposal to eliminate the cargo liability insurance requirement. Thirty-two individuals and organizations submitted comments. Industry groups such as the Transportation and Logistics Council (T&LC), the Transportation Intermediaries Association (TIA), the Freight Transportation Consultants Association (FTCA), and The National Industrial Transportation League (NITL) opposed the repeal.

Of particular concern for these commentators was the collateral result of the end of the BMC-32 endorsement and

the termination of the requirement for filing proof of cargo liability insurance. With respect to the BMC-32 endorsement, the FMCSA summarized the position of these commentators as follows:

- The BMC-32 endorsement is the only protection against deductibles and other exclusions from liability found in cargo liability policies.
- In many cases the carriers' deductibles can be very high and the exclusions may eliminate most sources of loss or damage recovery.
- The BMC-32 endorsement permits the shipper to proceed directly against the insurer, providing relief to shippers in the event the carrier becomes insolvent or bankrupt.

Three groups supported the elimination of the requirement for cargo liability insurance—the American Trucking Associations (ATA), the Owner-Operator Independent Drivers Association (OOIDA), and the Property Casualty Insurers Association of America. The FMCSA agreed with the views of these three groups in its final decision issued in June 2010.

The full text of the decision makes for very interesting reading as it outlines the positions of all of the commentators and the FMCSA's views with regard to the comments. The decision may be found at http://edocket.access.gpo.gov/2010/2010-14866.htm.

Regardless of whether or not one agrees with the FMCSA or its reasoning, the fact of the matter is that its decision is final and has not been challenged in court. Thus, to use a phrase, the "new normal" is that carriers do not have to have cargo liability insurance and shippers will have to adjust their practices and procedures accordingly.

WHAT'S A SHIPPER TO DO?

So, what should a shipper be doing after March 21, 2011, with respect to cargo liability insurance? To cut to the chase: A shipper must now independently verify the existence of the policy and nature of the coverage.

The position of the FMCSA, as stated in its decision, is that "Shippers are like any other party in a transaction where one party will be providing services to another party…Shippers should ask carriers for copies of their policies, including all endorsements, exclusions, and declarations, to see whether the shippers' property or interests will be served by a particular motor carrier." Put another way: In the view of the FMCSA all a shipper needs to do now is to read the carrier's policy.

As part of my law practice I represent many shippers and brokers. To help formulate a recommendation for these clients, as well as research for this article, I contacted Mark Yunker, vice president of RJ Ahmann Co., an independent insurance agency that provides insurance and risk management solutions to the transportation industry. On a daily basis Yunker deals with calls regarding, as he puts it, "problems that cannot be handled through normal channels or that have been mishandled through normal channels."

When asked for his comments with regard to this observation of the FMCSA, Yunker simply says that the suggestion to read a carrier's policy is highly impractical. "The shortest cargo liability policy I've seen is 57 pages long," says Yunker. "If the cargo liability policy is combined with an automobile liability policy, then it will often be 130 pages or more."

This means that if a shipper is dealing with just a few carriers, it may be possible to review the policies. However, if a shipper is dealing with hundreds of carriers, this is going to be a very time consuming task. For truck brokers and other intermediaries who may be using literally thousands of carriers, it is an impossible task.

Keeping in mind that only by reviewing all of a policy will one know all of its terms and conditions, there are three possible alternatives. One is to obtain a certificate of insurance. This will let a shipper know that the insurance is in place as of the date of issuance of the certificate. However, certificates of insurance commonly do not disclose deductibles and will not show exclusions to coverage.

Another possibility is to ask the motor carrier to provide a copy of the declaration page of its policy. Setting aside the fact that many motor carriers are reluctant to, or won't, provide a copy of their declaration page, the declaration page will show the deductibles, but will not show any exclusions to coverage.

To compound the problem, most cargo liability policies will have "endorsements"—the term the insurance industry uses for amendments or addenda to an insurance policy. As an example, "unattended vehicles" are typically covered by a cargo liability insurance policy, but often this coverage is then removed in an endorsement.

Conversely, cargo liability insurance policies do not typically cover losses resulting from a "change of temperature," however an endorsement can add coverage for "breakdown or mechanical failure of a refrigeration unit."

This leads to the third alternative: A telephone call to the agent who issued the policy for the trucker. The telephone call to the insurance agent will often lead, albeit informally, to a verification that there is, indeed, a policy and of the policy limits.

Yunker's advice for shippers when making the call to the agent is to "ask about what you are shipping." For example, if you are shipping only lumber, you probably don't need to worry about an exclusion for damage from rust. Another area of inquiry is the policy definition of "covered property." For example, coverage for cell phones may not appear in an exclusion, but if it is not included in the definition of "covered property" then indeed it will not be covered.

IN FORCE TODAY, GONE TOMORROW?

Let us now suppose that a shipper has been able to determine that a motor carrier's cargo liability policy will provide a certain amount of coverage in the event of a loss; e.g., $100,000 with a $10,000 deductible amount. While it may be that a smaller trucker would have trouble paying the $10,000 amount of the deductible, hopefully the shipper would get at least a $90,000 recovery in the event of a loss.

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However, the next unintended consequence of the FMCSA's decision is that because motor carriers will no longer be required to file evidence of insurance with the FMCSA, a shipper or broker will no longer be able to determine if a policy is still in effect months or years after its initial inquiries by simply going to the FMCSA website.

Whether intended or unintended by the FMCSA, this result was not unanticipated. In its decision, the FMCSA stated, "The Agency recognized that elimination of the BMC-32 endorsement will make it less convenient for commercial shippers to confirm the existence of cargo insurance."

According to Yunker, "It is now not only less convenient, but it eliminates any ability for one on their own to independently verify coverage being in place except for actually picking up the telephone and calling an agent to verify that the policy is still in force. It used to be one click, now it's going to be a game of telephone tag."

It must be kept in mind that while there have been various private companies who have provided this information as part of the services offered to their customers, it's the author's understanding that for most—if not all—of these providers the source of their information was the FMCSA website. Thus, this resource is gone as well.

Another potential source of confusion is that the FMCSA has advised in its decision that it "will not remove the names of insurance companies and the appropriate policy numbers from FMCSA web sites and any other FMCSA distribution methods until March 18, 2013, the second anniversary of the effective date of this final rule, to facilitate identification of insurance coverage for claims arising from transportation occurring while the policies were in effect."

In other words, the information on the FMCSA website will be historical and cannot and must not be relied upon to show the existence of coverage or the insurer, if any, from March 2011 forward.

And, by the way, the long-standing practice of being a "certificate holder" so you receive notice by the insurance company of a cancellation of a policy is no longer an available option. This is because that at the same time that the FMCSA was in the process of eliminating the cargo liability insurance requirement, another separate and unrelated process was taking place in the insurance industry that led to a change in the prescribed form for an insurance certificate in the fall of 2010.

In the past one could rely, at least to a certain extent, on a Certificate of Insurance to verify that a carrier had some form of cargo liability coverage in place as of a given date. The most common form of certificate is the "ACORD" form from the global, nonprofit insurance trade association of the same name. Prior to October 1, 2009, the ACORD Certificate contained this language:

"Cancellation: Should any of the above described policies be cancelled before the expiration date thereof, the issuing company will endeavor to mail __ days written notice to the below named certificate holder, but failure to mail such notice shall impose no obligation or liability of any kind upon the company."

However, as of October 1, 2010, (after

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a one-year interim period), this language no longer appears on the ACORD form. It now reads as follows:

"Should any of the above described policies be cancelled before the expiration date thereof, notice will be delivered in accordance with the policy provisions."

The catch is that if you read the policy provisions they will not provide for giving notice to a certificate holder.

MAKING SENSE

While this article may admittedly be a bit "alarmist" in tone, this was in part to get your attention. For shippers, all is not lost.

At least to date there has been no indication of an en masse cancellation of cargo liability insurance by the trucking industry. If for no other reason, this is because it is economically reasonable and prudent to have at least some form of cargo liability insurance in place, just as it is for any other business to have liability insurance in place to protect its economic interests.

Nevertheless, as time goes on, there will be carriers who will be limiting the extent of their coverage or raising the amount of the deductible to save premium dollars.

Further, while it may be that a trucker with just a few vehicles will stop carrying cargo liability insurance in order to "save money" in the short run, there will also be larger carriers who will conclude that in the long run it would be cheaper to pay losses out of revenues rather than pay the cost of purchasing insurance.

As noted by the FMCSA in its decision, shippers who entered into contracts with their carriers in the past have required certain types of coverage and the level of coverage. To the extent that cargo liability insurance has not been the focus of these requirements, it should be in the future.

To sum up, here's what shippers need to know:

- the requirement for cargo liability insurance is gone;
- the BMC-32 endorsement is gone;
- certificates of insurance will not provide for notice of cancellation; and
- the FMCSA website cannot be relied upon with respect to a motor carrier's cargo liability insurance.

Accordingly, in the absence of these protections, a shipper must independently verify the existence of its carriers' cargo liability insurance policies and the terms and conditions of their coverage. And, as always, the best way for a shipper to protect its economic interests is to negotiate and have in place a contract with its carriers—including a provision requiring a cargo liability insurance policy and that specifies the required coverage. □

[1] Rob Norton, "Unintended Consequences." The Concise Encyclopedia of Economics. 2008. Library of Economics and Liberty. 9 June 2011.www.econlib.org/library/Enc/UnintendedConsequences.html.

Brent Wm. Primus, J.D., is the CEO of Primus Law Office, P.A. and the Senior Editor of transportlawtexts, inc. He is the Editor of "Freight Claims in Plain English, 4th Edition," and the author of the newly released text "Motor Carrier Contracts Annotated." He can be contacted at brent@primuslawoffice.com.

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6 Tips for optimizing the distribution network

Whether driven by reducing costs or by new business strategies, our panel of experts says that rethinking your distribution network has become more important than ever.

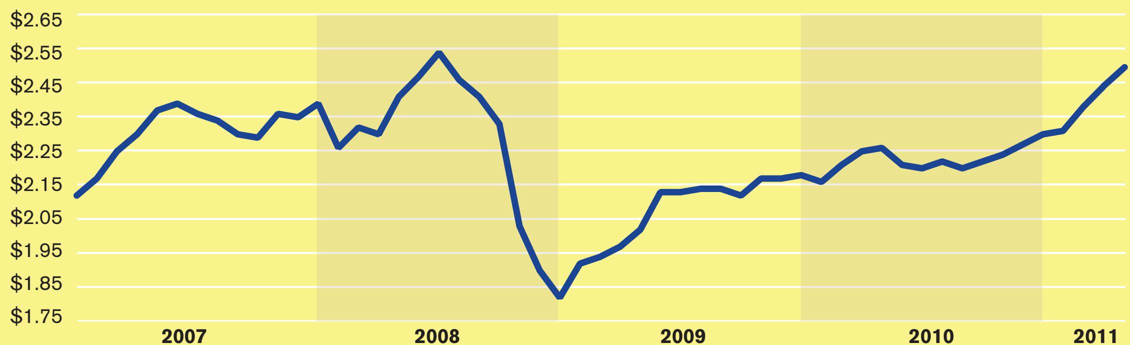
BY **MAIDA NAPOLITANO,** CONTRIBUTING EDITOR

Transportation and logistics professionals can't seem to get a break. Just when we thought that the economy was finally experiencing a slow albeit unsteady upturn, fuel prices began creeping higher, forcing freight rates back on the front burner.

According to the U.S. Freight Rate Index—an indicator tracking the average cost per mile of land transport in the U.S.—the double-digit increase in the price of fuel has pushed the average cost per mile from $2.22 in 2010 to $2.39 in 2011, up 7.7 percent. That means a manufacturer with an annual transportation operating expense of $100 million in 2010 can expect to add $7.7 million more for 2011.

And there's more bad news: Many are predicting the cost per mile to get even worse with the global demand for oil increasing and the availability of truck drivers decreasing. To help us sort out how these factors are affecting America's distribution networks, we turn to four network strategy experts from three leading supply chain and logistics consulting firms.

According to Marc Wulfraat, president of Montreal-based MWPVL International, the key question many companies are now evaluating is: At what point



The double-digit increase in the price of fuel has pushed the average cost per mile from $2.22 in 2010 to $2.39 in 2011.

does it make economic sense to add more distribution facilities to reduce inbound and outbound miles?

Paul Evanko, senior vice president of York, Pa-based St. Onge Company, agrees with Wulfraat's assessment. "Many are making the move towards smaller distribution centers (DCs) located close to major markets, to ports, and to inland-intermodal logistics centers."

But it isn't only the price of fuel that has shippers rethinking their distribution networks. The implementation of new business strategies has also been another major driver. "Almost every company that we've helped with logistics strategy in the last two years is reengineering their logistics network to either enhance customer service or to help launch a new customer channel," says Todd Soller, retail strategist for global firm, Kurt Salmon.

Mike Jones, president of St. Onge, is also seeing the same changing business strategy scenario play out in many of the studies that his firm is doing. "Recent network studies have not only been initiated by ongoing mergers or acquisitions, but also by corporate edicts looking for cross-divisional synergistic opportunities," says Jones. "With the latter, while the individual businesses may operate with great autonomy, the corporate parent still wants them to look at opportunities to share distribution and supply chain resources."

Whether driven by reducing costs or by new business strategies, rethinking your distribution network has now become more relevant than ever. With typical cost savings of 15 percent and more, these studies also result in allowing companies to service their customers more quickly. "This can make a huge difference with how a company is perceived by its customer," notes Soller.

"The ability to get product to market in one to two days when the competition can only deliver in three to five days is considered to be a serious weapon," says Wulfraat. "It may be worth it to spend more to buy more market share."

Which begs the question: Is your network up to par? In the next few pages, our experts share six essential tips for network modeling success. With a combined 83 years of experience and over 150 network studies under their belts, you might want to heed their advice as you optimize your network.

Traditionally, in many DC projects, business owners and stakeholders don't get involved until the very end when they give their approval on the overall output. But in a network strategy study, our experts agree that engaging high-level management early on is a must.

"Don't have them show up on the 15th week of a 16-week study and start throwing curve balls and challenging the assumptions," explains Jones. "Get them involved from the beginning to establish your assumption sets."

Soller also recommends involving managers from sourcing, product development, merchandising, and sales to get all of their perspectives for inclusion in the overall solution design. "These managers bring perspectives to the table that make the overall result much more effective; it also ensures buy-in and belief that the new network is a good decision for the business."

Soller cites, for example, how a sales manager can bring to light specific needs of individual customers, allowing you to address them within the network, rather than creating a one-size-fits-all solution for all customers.

A good distribution network redesign encompasses a number of key areas of the business that all need to be considered and questioned.

Wulfraat lists some of critical ques-

Software Tools

Name	Vendor	Year Released	Web site
CAST	Barloworld	1989	www.barloworldscs.com/
4flow vista	4flow AG	2001	www.4flow.de/en/logistics-consulting.html
LogicNet Plus XE	IBM ILOG	1995	www-01.ibm.com/software/integration/sca/logicnet-plus-xe/
LOPTIS	Ketron Optimization	N/A	www.ketronms.com/loptis.shtml
NETWORK	Supply Chain Associates	1968	http://supplychainassoc.com/NETWORK.htm
Opti-Net	Technologix	1993	www.technologix.ca/software/opti-net/
Voyager Network Design	Logility	N/A	www.logility.com/
PRODISI	Prologos	1985	www.prologos.de/English/Prodisi.htm
SAILS	Insight	1984	www.insight-mss.com/_products/_sails/
SCM Network Design	Infor	N/A	www.infor.com/product_summary/scm/network-design/
Supply Chain Guru	LLamasoft	1998	www.llamasoft.com/Technology/NetworkOptimization.aspx
Network Design & Optimization	JDA Software	N/A	www.jda.com/solutions/network-design-optimization-overview/
OptiSite	MapMechanics	N/A	www.mapmechanics.com/

List of commercially available software tools for use in supply chain design and network modeling.

(Updated from "State of the Art Survey of Commercial Software for Supply Chain Design" by Kenichi Funaki from Supply Chain and Logistics Institute, Georgia Institute of Technology)

tions that need to be answered: What are the storage and throughput capacity constraints associated within my existing distribution network? What perceived service level requirements are required for major markets being served in order to be competitive? If the delivery lead-time is changed then what is the anticipated impact on sales revenues for a given market? What are the logistics operating expenses, one-time expenses, inventory assets and capital investments required for the baseline scenario? How do these compare to alternative scenarios?

Evanko then points to a few questions concerning different forms of sourcing: Should you be sourcing your products locally, importing, or returning manufacturing to the U.S. or to countries closer—also known as near-shoring?

Our experts agree that despite the buzz, near-shoring is not imminent. In fact, they expect most companies to continue to outsource the manufacturing of low-value items such as toys and clothes to China. "As labor becomes more expensive in China, then manufacturing isn't moving back here. It will move further south in Asia into Indonesia, Malaysia, Vietnam, and India," says Evanko. "Those countries still have a labor cost advantage over China."

Tip 3

Use an effective network modeling packaged tool

Up to a certain scale, modeling your network in house using home-grown spreadsheets and databases can get cumbersome—if not impossible. Choose one of many commercially available network modeling tools.

"These tools can help a company develop a very robust initial solution and build the capability within your organization to continually monitor what's happening within the logistics network," explains Soller.

Wulfraat cautions, however, against solely depending on these tools to optimize the network. "A software tool will help to figure out a small but important subset of the overall information that is needed for a study," he says. "But truthfully, the CEO does not care if you used a hammer or a drill for the job. The CEO wants to understand the financials, customer service impacts, and risk sensitivities."

What's the consensus? In any good network model redesign, you need both. "It's important to involve the business owners within the organization in conjunction with using the analytics available in the tools," concludes Soller. "The business owners help you ask the right questions and the tools assist you in developing more sophisticated answers to those questions."

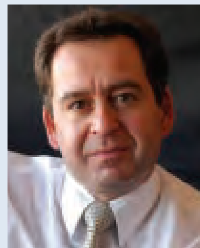
Tip 4

Perform an inventory optimization study

According to St. Onge's Evanko, one of the most overlooked areas in many network designs is inventory. While adding more DCs may reduce transportation costs, it also requires you to carry more inventory—and many times this inventory is

More thoughts on America's Distribution Networks:

Marc Wulfraat, president, MWPVL International:



"The concept of the 12,000 mile supply chain whereby goods produced in China and Asia are shipped into North America is here to stay for any industry with a high labor time component involved in the production of goods. We expect to see a shift towards near-shoring and domestic production for products that are characterized by high cube/weight/value as businesses look for ways to reduce inbound transportation expense and to increase inventory turns caused by 25-30+ day delivery lead times inbound."

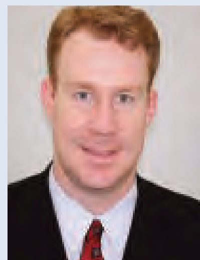
Mike Jones, president, St. Onge Company:

"Ten years ago, people were hung up on inventory reduction. That desire to reduce inventory drove the consolidation of facilities. Now, with low interest rates decreasing the carrying costs of inventory versus the rising costs of freight, many have argued for more facilities. The more facilities you have, the shorter the lead times, the lower your outbound freight. However, the more important your inventory sizing and deployment strategy becomes."

Paul Evanko, senior vice president, St. Onge Company:

"More companies have expressed interest in sustainability as corporate citizens and also as wanting to be perceived by their customers as 'being green.' So when we do a network study, one of the things we've been looking at is the impact of various network configurations on greenhouse gases. You can see what the incremental cost would be to add a facility that might yield a significant reduction in greenhouse gases."

Todd Soller, retail strategist, Kurt Salmon:



"In the past many companies would have their own internal network and not leverage any logistics service providers or 3PLs. Companies are becoming much more sophisticated. They're using 3PLs and integrating them into their own internal network of DCs. 3PLs have a greater capacity to scale and ramp with regard to seasonal volume, assist with rapid geographic expansion, and handle certain product flows that allow a company to level load its existing network while meeting the demands of a changing environment."

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far from optimal. "But it can be made optimal by coordinating an inventory optimization study with the network design study," says Evanko.

After the modeling tool identifies the number of facilities needed and roughly where they should be located, Evanko suggests using algorithms to determine the right amount of inventory to achieve a specific level of service that can be customized for each of the facilities.

Jones points out that how you deploy inventory becomes more and more important the more facilities you have: What products are you going to stock? Where are you going to stock them? "We're getting customers wanting us to supplement the network study to answer more tactical level questions," says Jones. "It's not just how many facilities and where they're located, but how am I going to deploy the inventory, route my trucks, and in some cases look at the design of the facilities themselves."

Tip 5

Make sure there's labor.

Certain areas have become hotbeds for distribution primarily because of their proximity to the U.S. population.

Evanko points out, however, that these popular areas that companies gravitate toward means that there could be fierce competition for the labor force. Turnover rates become high because workers would rather work down the street for another DC that's offering 25 cents more an hour.

He recommends analyzing the local labor market of the candidate locations to determine not only if there's an adequate labor supply, but also to determine if socio-demographic characteristics are amenable to jobs in light manufacturing and distribution.

Tip 6

Take your time.

Depending on the complexity of the network, the availability of the data, and the experience of the project team, a typical network study can take up to six months.

"I'm amazed at how many companies are making big, multi-million dollar decisions, but for some reason don't spend the time to do it right," says Jones. "They have to do it in five to six weeks. Most of these studies rarely take less than three or four months to do right." ☐

Maida Napolitano is a Contributing Editor to Logistics Management

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Special Report:
Ports Update

State of Bulk and Breakbulk Ports:

Back to basics

While North America's great ocean cargo gateways are heavily reliant on containerized throughput, major and minor ports alike are not letting go of their bulk and breakbulk operations. Indeed, many of them are coming to regard this basic piece of their portfolio as a value-added service.

By Patrick Burnson, Executive Editor

Economists who rarely agree on anything, seem to be of one mind on a major trend shaping world trade: Demand for raw materials will continue to escalate.

"As the need for grain, wheat, steel, and minerals ramps up, U.S. exporters will be seeking diverse ways of getting their products to market," says Dr. Walter Kemmsies, chief economist for Moffat & Nichol, a leading coastal and civil engineering services provider. "And these macroeconomic trends will define the next decade for bulk shippers."

Kemmsies is quick to add that the same thing goes for ports. This begs a question, however: How much new infrastructure is required to accommodate this surge in demand?

"Structural problems persist in the U.S., as it struggles to come out of the past recession," adds Kemmsies. "Ports need more investment, but seem to have to come up with it themselves most of the time. The nation still lacks a transportation policy."

Richard Thompson, executive vice president, global supply chain practice for Jones Lang LaSalle in Chicago, concurs: "While we all wait for the government to spend money repairing our highways and roads, rail providers are using money from investors like Warren Buffet and Bill Gates to get the job done."

According to Thompson, Buffet, who owns BNSF, and Microsoft founder Gates, who owns part of CN, are just two examples of "visionary" businessmen who see the future in rail—the primary surface mode for bulk and breakbulk cargo.

Alan Beaulieu, president of ITR, an economic forecasting firm, says that America's trade imbalance

may be corrected in the near future thanks to high value bulk commodities. "Rare earth minerals will soon be in great demand," he says, "and shippers will be exploring many alternative methods of sourcing. This includes using some of the smaller seaports and river ports with adequate infrastructure."

Obtaining the funds for such an enterprise continues to be daunting, say other economists. Jessica Soltz Rudd, senior director with transportation consulting firm Frasca & Associates LLC, notes that advisors can help ports navigate the intricacies of the financial marketplace. "Back in the 'go-go nineties' ports were bringing in so much cargo that money for expansion was a given," she says. "The growth multiples were three times or more each year, and given the capital intensive nature of port operations, money was not that hard to raise."

But in the wake of a severe recession, and with consumer confidence now just beginning to gain traction, ports are under pressure to justify investment before trying to raise money. "Even with a bond rating of Triple A with Moody's, S&P, and Fitch...it's not an easy thing to do," says Sotlz Rudd. "And once you get the funding, it's important to stay on your guard and remain proactive. You are only as good as your credit."

Little ports that can

Finding the money to build and maintain bulk and breakbulk facilities is an ongoing process for many niche ports seeking to diversify their offerings. The Port of San Francisco, which ceded major container operations to its cross-bay rival the Port of Oakland many years ago, is also getting back to basics.

"We believe there's a real chance we can attract iron ore as a breakbulk commodity for export," says Jim Maloney, the port's maritime marketing manager. "The infrastructure is in place, and now all we need is a deal to come together."

To that end, the port is soliciting interest from qualified respondents for developing and operating a bulk marine cargo-handling terminal at its underutilized Pier 96. The port is seeking to identify one or more qualified maritime cargo terminal operators with a proven capability of designing, financing, developing, and operating bulk terminals at other ports who may be interested in expanding into the San Francisco Bay Area market.

Characteristics of the Pier 96 site include 15 acres of paved land adjacent to the water, a 40-foot deep-water 1,000-foot berth, on-dock rail access at the site, and access to the port's five-track rail yard.

"The iron ore would come down from Utah or New Mexico via direct rail," Maloney says. "We looked into coal, too, but determined that there might be too much community resistance to that idea."

Maloney, who worked for Maersk before coming to the port, notes that San Francisco can still maintain a cargo component in its overall operations if it remains vigilant. "Just as the ocean carrier lines have been adamantly stating, you really can't take any revenue stream for granted these days. Ports have to remain aggressive when it comes to developing a comprehensive portfolio of services."

So far, three bids have come in, says Maloney, and the port commission will determine who will get the exclusive negotiating agreement this month. "They may agree then, or ask us to buy more time in soliciting a deal," says Maloney. "But it looks like it's going to happen in any case."

Meanwhile, the little port to the north—Portland, Oregon—remains an ongoing breakbulk success story, with steel and steel-rail throughput figures rising to a year-to-date increase of 150 percent over July 2010. The port also moves more wheat outbound than any other gateway in the country. Other major exports

include wheat, potash, and soda ash.

"Portland is a small, but world-class port," says Kurt Nagle, president and CEO of the American Association of Port Authorities (AAPA). Nagle observes that the major imports arriving at the Port of Portland include cement and limestone, steel, automobiles, and oil. The major trading partners for the Port of Portland include Japan, South Korea, China, Taiwan, and Mexico.

The AAPA's Maritime Economic Development Seminar, being held in Portland this month, will focus on cultivating operational and financing partnerships, infrastructure, and trade opportunities for seaports.

East Coast rivals

While the pace of global recovery is cooling, shipping activity through South Carolina's ports remains up through the current fiscal year, according to port spokesman Byron Miller. He notes that breakbulk volume through the state's ports—driven primarily by vehicle shipments from BMW and energy related projects—rose 40 percent from 551,000 tons last year to 773,000 tons this year.

Breakbulk tonnage in the Ports of Charleston and Georgetown was up more than 44 percent for the period July 2010 through February 2011, with 657,528 tons handled at the two ports in fiscal year 2011 compared to 455,449 tons handled during the same period the previous year, says Miller.

"Overall volume at South Carolina Ports (SCSPA) increased more than 12 percent from July through February," he says, adding that the SCSPA anticipates continued, but moderate, growth through the year.

The North Carolina State Ports Authority—which like SCSPA is rightfully proud of its container operations—is aggressively growing it breakbulk operations, too. Breakbulk operations in Wilmington and Morehead City, for example, are up a combined 27 percent over the 2010 performance. This growth is a reflection of the strong global recovery in commodities such as wood pulp, shipped through Wilmington, and metal products and rubber imports, which are shipped via Morehead City.

"We anticipate continued growth in the coming months as new business comes online in Morehead City," says Glenn Carlson, chief commercial officer of North Carolina State Ports Authority. "Additional dry fertilizer imports are supporting a strong spring performance, and we recently kicked off woodchip operations with regular exporting to begin in June," he says.

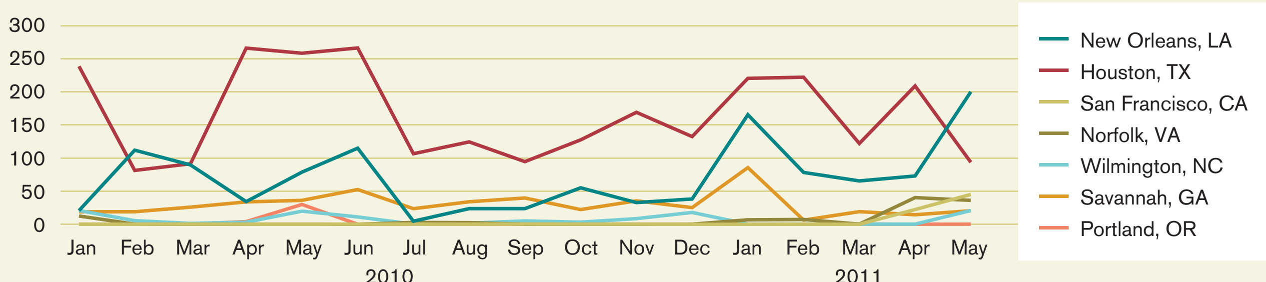
According to Carlson, the authority expects continued moderate growth through the year.

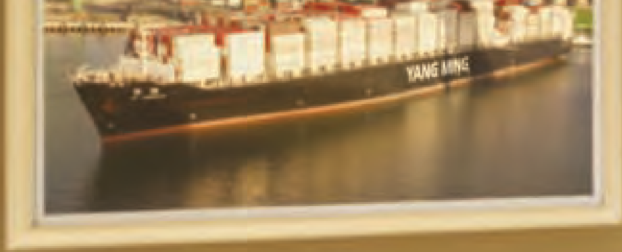
Gulf leaders

When it comes to total bulk and breakbulk tonnage, The Port of Houston is among the nation's leaders with steel comprising 70 percent of cargo passing though the Houston Ship Channel.

According to the Port of Houston Authority (PHA), more than two million tons of steel every year come across the docks as plate, pipe, coil, beam, with the remaining 30 percent coming in the form of forest products (imported plywood, newsprint), transformers, storage vessels (cylindrical tanks), or roll-on/roll-off cargo.

While it has yet to return to record numbers set two years ago, Houston's numbers showed sustainable growth in 2010. "The public docks are expecting to see between 2.3 and 2.6 million tons with additional cargo moving through private terminals like Inbesa and Manchester





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Terminal," says Patrick Seeba, an analyst with The Greater Houston Port Bureau.

The PHA estimates that it will move between 2.3 and 2.6 million inbound tons of steel this year, followed by 2.6 next year—for both years, they're expecting 300,000 outbound tons of scrap steel. For non-steel breakbulk, PHA estimates 2 million tons of total traffic, or 75 percent, which is bound for export.

"Like all global shipping, the amount of breakbulk cargo coming through the Port of Houston was dramatically affected by the global recession in 2009," says Seeba. "While the first quarter of 2010 showed a nearly 71 percent decline in steel coming across the city docks, year-to-date numbers show a steady climb back to normal tonnage."

Zepol, a leading trade intelligence company based in Minnesota, notes that Houston's gulf neighbor is growing its bulk and breakbulk business, too. According to Paul Rasmussen, Zepol Corporation's CEO and president, metric inbound tonnage of "non-containerized goods" at the Port of New Orleans has been impressive.

"Like Savannah and Norfolk, New Orleans has made substantial gains," says Rasmussen. "This reflects widespread diversification."

No better example of this "diversification" in New Orleans is the $25 million dockside refrigerated terminal slated to open next month. The new terminal, to be operated by poultry exporter New Orleans Cold Storage, (NOCS) operates a similar dockside refrigerated warehouse, capable of freezing more than 500 tons of food products daily, at the port's Jourdan Road Terminal.

The new 140,000-square-foot warehouse will be able to store approximately 175,000 tons of product, primarily poultry, at temperatures between -15 degrees and 40 degrees Fahrenheit and blast-freeze 600 tons of product in 20 hours or less.

But the advances in this breakbulk operation did not come without a major funding effort. Nearly $24 million was given by the Community Development Block Grant Disaster Recovery Program of the Louisiana Office of Community Development—Disaster Recovery Unit. "When it comes to economic development, actions speak louder than words," says NOCS president Mark Blanchard. "As we worked to rebuild our business over the last five years, we got lots of help from our government leaders." ☐

—Patrick Burnson is Executive Editor of Logistics Management

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Executive education programs today are focusing on the "hot" supply chain topics. Here's a look at what's available and how you can take advantage of these offerings.

By Bridget McCrea, Contributing Editor

Whether they want to get back to the basics, increase their firms' global presence, or more tightly intertwine their companies' end-to-end supply chain, today's supply chain professionals are turning to universities, professional associations, and consulting firms for the education required to achieve those goals.

Education providers are answering the call, combining new course offerings with convenient delivery methods to reach all corners of the supply chain profession. In this supplement, we'll look at what's new and "hot" in executive education in the supply chain space, look at what several schools are doing to make sure that they're meeting student needs, and give you insights about what's coming around the next corner.

Back to Basics, Please

With the national economy slowly improving and companies in recovery mode after a few tough years, more attention is being paid to the supply chain. Organizations are examining how well the supply chain is working, the role it plays in a firm's overall success, and any related deficiencies or gaps that need attention. "There's definitely a focus right now on getting 'back to the basics' with supply chain-related education," says Don Ratliff, executive director for Georgia Tech's Supply Chain and Logistics Institute in Atlanta.

"Companies want to make sure that their supply chain and logistics people understand basic inventory, transportation, warehousing, and supply chain strategy," Ratliff continues. "There's a lot less interest in the 'gee whiz' stuff that firms were asking for just a few years ago."

Credit the economic downturn with stoking that grassroots mentality, which is driving companies to develop leaner supply chains, for example. "We're still not quite past the economic downturn," says Ratliff, "so the focus is still on making sure a firm has the basic blocking and tackling down; lean falls under that umbrella."

Ratliff's team at Georgia Tech is also fielding a high number of company-specific queries right now. Most of the questions concern supply chain challenges that the firm is grappling with, with an eye on solving them through "live" continuing education (as opposed to online message boards or other virtual means). "In some cases," says Ratliff, "you really need to be able to sit down and talk these issues out face-to-face in order to get them solved."

Companies Speak Up

At the University of Tennessee's Global Supply Chain Institute in Knoxville, executive education programs are being adapted to meet the needs of the companies like Coca Cola, Procter and Gamble, Honeywell, and Amazon. "These firms meet on campus a couple of times a year," says J. Paul Dittmann, the institute's executive director. "Through those interactions, we hear a lot in terms of what they're looking for in their supply chain education."

One area that's getting a lot of attention these days is the global supply chain and how it's being supported through executive education offerings. "Most supply chains are global in nature," says Dittmann. "The question is, how many good educational programs are available to executives that need a strong learning component that's focused

[specifically] on supply chain?"

The pickings are slim, according to Dittmann, whose group recently introduced a global supply chain executive MBA program to help fill that gap. And while multiple universities offer executive MBA programs, he says that this new offering was developed around the need to "carve out a niche in the global supply chain arena."

In developing the new program, the University of Tennessee once again turned to the 30 or so global supply chain executives active in the school's Global Supply Chain Institute, all of which had the opportunity to give their input into the program's design. "Using that input, we put together a supply chain curriculum with a strong global focus," says Dittmann.

The 12-month global program includes residencies in Knoxville as well as in Paris, Budapest, Singapore, and Rio de Janiero. "Students will spend five, one-week residencies on campuses around the globe, and receive instruction from international faculty," says Dittmann, who is bullish on the program's potential for attracting students. "We think there will be big demand for this."

Penn State University's Smeal College of Business is also seeing higher demand for global supply chain education, according to Skip Grenoble, executive director for the Center for Supply Chain Research in University Park. "Global opportunities for [companies] are definitely on the upswing and will continue to increase," says Grenoble.

To accommodate that trend both in terms of individual courses and for custom programs, the center this year will offer courses in Belgium, Prague, Saudi Arabia, Singapore, and Shanghai. The phenomenon works both ways in that Penn State is also hosting more international supply chain executives who come to the U.S. to learn the ropes.

"We also have a group of wholesale and retail junior executives from South Africa who are potential managers, and who are set to come through our program in a few months," adds Grenoble. "We're seeing more and more of that kind of international representation in our courses."

Hands-On Action Learning

Whereas in the past companies were satisfied with the coursework provided by the school or organization they were working with, today those same firms are rolling up their sleeves and taking a more hands-on approach to executive education. This type of "action learning," is catching on, particularly among firms that are looking for custom programming options.

"There's definitely a desire to build project work into the courses," says Grenoble, whose school offers a two-week basic learning program that includes a short break followed by a 3-1/2 day program on transformation. Students start on their project work during the first week, continue working on it during the break, and then come back to report the results of their efforts.

Grenoble says interdisciplinary content is also in high demand. To answer the call, he says the Center for Supply Chain Research is broadening its content offerings to deliberately include speakers and/or instructors who can discuss non-supply chain disciplinary areas.

"More and more we're using faculty from other disciplines for the supply chain courses," says Grenoble. "Right now, our programs are being led by finance, accounting, management, organization, international business, and industrial engineering experts."

Don Klock, professor of supply chain management at Rutgers Business School in Newark, is a big proponent of blending supply chain management programs with marketing science. "We're serious about linking the instruction to both customers and consumers," says Klock, whose team comprises over 30 professors, some of whom are supply chain experts, while others are marketing gurus.

"We work very hard at achieving that integration," states Klock, "and linking the overall supply chain with the end users." The school also focuses on cultivating professionals who will be able to run an end-to-end supply chain, and not just one or two links in that chain. Klock explains: "We try to bump up their skills by offering certificates in project management, manufacturing, or sustainability, for example, to make sure they walk away with a broad-based supply chain education."

Continuous Professional Development

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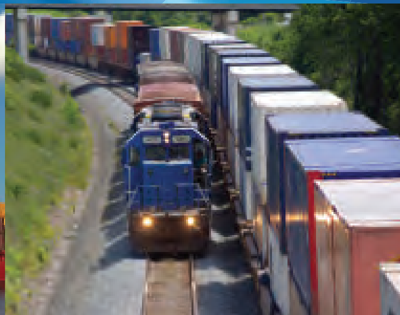

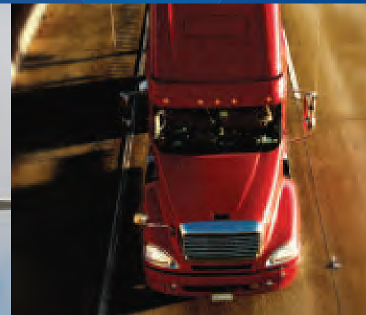

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licate. "It's not as if an executive from some other totally unrelated field can just come into a supply chain position and be successful; that's highly unlikely," says Tennessee's Dittmann. "Supply chains are amazingly complex, and getting more complicated all the time."

And yet, today's supply chain professionals—particularly those that bring the right mix of experience, education and business savvy—are handling the challenge quite well. To further enhance that value, Dittmann says the supply chain manager of the future will have to be more adept at "speaking the language of the boardroom executives." Concepts like return on net assets, economic value-added, and working cash flow, for example, will have to be mastered in order to create the most well-rounded supply chain executives.

"Our students need to learn the language of the executive suite in order to have the right influence in the corporations where they work," remarks Dittmann, who sees supply chain management as a lifelong career requiring continuous professional development.

Some of that development may be delivered online, where distance education is picking up steam and being used to complement traditional, classroom instruction. Expect that trend to continue, says Grenoble, who sees the cost effectiveness of online course delivery as one of its biggest selling points. "Over time," he comments, "distance education will become more important, particularly for those executives who aren't necessarily on the fast track, but who need the continuing education."

Calling the United States the "best at supply chain logistics," Ratliff also sees more distance education ahead for the space, in particular for those students that can't travel halfway around the world to attend an American university and other programs in person. "We get calls from all over the world, asking us to provide supply chain education," says Ratliff. "I expect we'll see a gradual increase in the use of electronic media to fulfill those needs."

Bridget McCrea is a freelance writer specializing in logistics and supply chain management. She can be reached at bridgetmc@earthlink.net.

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View from the Top

Dear *Logistics Management* Reader:

Once again, it's my pleasure to introduce the following section, **View From The Top**. Now in its 10th year, these pages offer terrific insight from top-level executives in leading logistics companies as to the current state of the industry, and how their companies are meeting today's challenges.

While the economy may be in better shape than it was over the past couple of years, it certainly does not seem like we're experiencing the strong recovery predicted at the end of 2010. Unemployment is still high, GDP growth remains slow, and consumer confidence is unsteady. While some sectors of transportation, such as rail, are doing quite well, most are still significantly affected by the Great Recession.

The companies in this section recognize the uncertainty of today's business climate and are taking steps to help you navigate through the logistics and transportation pitfalls to help you keep costs down and improve the overall efficiency of your supply chain. Read through these pages and see all of the new opportunities that are being offered to help improve your company's logistics network.

Please enjoy the **View From The Top**.

Brian Ceraolo
Group Publisher

View from the Top

Wesley B. Kemp
President and CEO

Dear Logistics Management Readers:

In this ever-changing economy, success requires a total logistics provider. You need someone who is proactive, cost competitive, flexible, and has sophisticated information technology. You need someone who collaborates with your overseas suppliers. Above all, you need a trusted partner who has best-in-class professionals managing your transportation requirements, who understands your business model, and is committed to working on your behalf 24/7.

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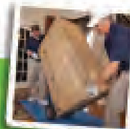
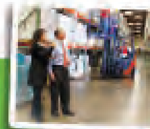
Sincerely,

Wesley B. Kemp

President and CEO





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View from the Top

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Sincerely,

Ron Lefcourt
President
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View from the Top

Yeah, We Can Do That.

Ray Greer, M.S.
President

Since joining BNSF Logistics, I have been asking a lot of questions as well as listening to our people, our customers and our stakeholders. What I have concluded is that BNSF Logistics and its people have special qualities that enable unique, optimized solutions and customer relationships. I know a lot of logistics providers say that, but we really do.

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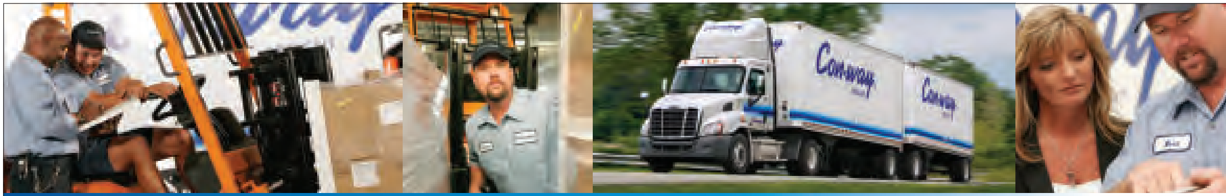

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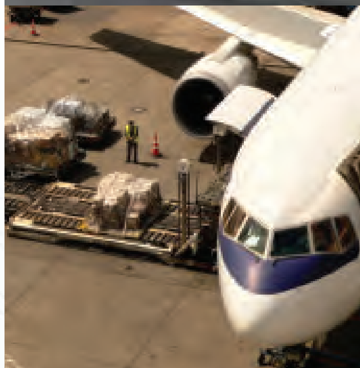

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Tom Crowley
Chairman, President & CEO

Founded in 1892, Crowley is a U.S.-owned and operated company, providing marine solutions, transportation and logistics services in both domestic and international markets. We are customer centric and solutions oriented. Personnel and assets across the entire organization are regularly brought together to solve throughput challenges for many of the world's most dynamic corporations, including consumer products companies, retail giants and clothing manufacturers.

A Crowley hallmark is our longstanding, regularly scheduled container and break-bulk Ro/Ro and Lo/Lo liner services between the U.S., Caribbean and Central America. No other carrier has performed as long or as well in these markets. As a third-party logistics provider with an inherent strength in the region, Crowley provides supply chain and transportation management services including: freight forwarding; ocean, inland, and air transportation; customs house brokerage; cargo insurance and warehousing. From designing a multifaceted supply chain across international borders to transporting a single pallet of freight, our attention to detail delivers for customers no matter how large or small their needs.

Additionally, Crowley's U.S. and Central America trucking services along with a healthy network of distribution centers, provide a framework for clients to combine and tailor logistics services as needed while achieving visibility through sophisticated shipment tracking. Total customer satisfaction is a key performance driver for Crowley. By establishing close business relationships with customers, we help them enhance their operating efficiencies, productivity and profitability. Open, two-way communication and a commitment to continuous process improvement is a must. And with ISO-certification in freight services and solutions development, Crowley meets and exceeds the highest standards for quality and service.

We deploy over 150 transportation programs designed to help customers be more efficient and informed — with visibility maintained across all facets of the Crowley organization. Our people bring impeccable expertise, knowledge and experience to meet each customer's IT requirements delivering:

- Timely response to customer service, bookings and rates
- Cargo tracking through the transportation cycle
- Customer profiling and call history
- Quick access to all documentation
- Imaging- workflow processes and paperless documentation
- Express release of Bill of Lading
- Electronic Data Interchange

Customers count on Crowley to work with them, not just for them. And when challenges arise, they know Crowley employees are resilient, resourceful and supportive. For your own rewarding experience, please contact Crowley today **www.crowley.com/partner.**

www.crowley.com

CROWLEY®
People Who Know®

View from the Top

REGISTER TODAY!

OCTOBER 16-20, 2011
Orange County Convention Center
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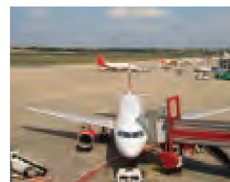
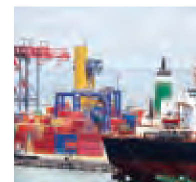
EXPERIENCE HOW SMART TECHNOLOGIES ARE TRANSFORMING LOGISTICS AT THE LARGEST ITS EVENT IN THE WORLD!

Participate in the most comprehensive exhibition of transportation technologies, services and solutions

Hear from leading policymakers and innovators about ITS solutions that will revolutionize transportation





Network and make business connections with transportation professionals from the U.S. and across the globe

Choose from 250+ policy, technical and educational sessions and earn professional development credits

Catch a glimpse of what's possible at the Technology Showcase, the most interactive and innovative test site for advancing transportation technologies

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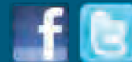

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View from the Top

Henry Gerkens
Landstar Chairman,
President and CEO

While tightening capacity continues to be a concern for many shippers, Landstar customers can rest assured in the knowledge that we are uniquely qualified to meet any capacity challenge.

Landstar offers an extensive array of capacity, including nearly 8,000 exclusive business capacity owners (BCOs) and more than 25,000 other approved third-party transportation capacity providers. Landstar's capacity network includes over 13,000 pieces of trailing equipment from vans and platform trailers to heavy haul and specialized equipment such as Schnabels.

For shippers looking for solutions to help manage bidding, scheduling, shipping, tracking, invoicing and reporting, Landstar offers cost-effective, technology-based tools along with our extensive array of transportation services to address supply chain needs from basic transportation management to highly complex enterprise solutions.

Landstar's portfolio of services includes:

TES – A Total Enterprise Solution
For customers needing a Total Enterprise Solution, Landstar TES is a customized enterprise-wide supply chain management solution. Landstar TES involves the direct integration of a customer's material order management systems with a leading edge transportation management system to provide seamless, real-time order management and optimization, in-transit and inventory visibility, and access to all of Landstar's multimodal transportation services and capacity.

Capacity Plus
Landstar Capacity Plus provides customers with carrier selection and management, track and trace, shipment management and customized reporting provided by dedicated logistics professionals.

Landstar can even provide customers with a guaranteed resource to locate capacity to move those last-minute dynamic shipments.

Providing Supply Chain Solutions and Complete Global & Domestic Transportation Services
We have the capability to tailor a solution that best meets your needs –in all modes of transportation logistics including rail, air and ocean, plus international and warehousing services.

Landstar's customer-driven technology combined with our wide array of available transportation capacity and services, all deliverable with the personalized service provided by Landstar independent sales agents, provides shippers the flexibility to meet tomorrow's challenges today.

Landstar System, Inc. – Corporate Headquarters
13410 Sutton Park Drive, South | Jacksonville, Florida 32224 | 800-872-9400
www.landstar.com

View from the Top

LYNDEN

Jim Jansen
CEO

Lynden
6441 South Airpark Place
Anchorage, AK 99502
1-888-596-3361
information@lynden.com
www.lynden.com

Lynden began with a clear mission: put the customer first, deliver quality, and be the best at what you do. Today, Lynden's service area has grown to include Alaska, Washington, Western Canada, with additional service extending throughout the United States and internationally, via land, sea and air. Our mission remains the same. Complex transportation problems can be solved in the hands of the right people, with the right tools and the right experience. Over land, on the water, in the air - or in any combination - Lynden has been helping customers solve transportation problems for over a century. Operating in such challenging areas as Alaska, Western Canada and Russia, as well as other areas around the globe, Lynden has built a reputation of superior service to diverse industries including oil and gas, mining, construction, retail and manufacturing.

The combined capabilities of the Lynden companies includes truckload and less-than-truckload transportation, scheduled and charter barges, rail barges, intermodal bulk chemical hauls, scheduled and chartered air freighters, domestic and international air forwarding, international ocean forwarding, customs brokerage, trade show shipping, remote site construction, sanitary bulk commodities hauling, and multi-modal logistics.

The Lynden family of companies delivers a completely integrated freight transportation package. Our people have the knowledge to quickly respond and solve your multi-modal transportation problems. Lynden offers customers sophisticated technologies, including a suite of e-commerce services; to capture data and translate it into information that helps you with every aspect of your freight and logistics. From origin to destination, over any terrain, managing freight movement, as well as the flow of information, Lynden provides innovative solutions to meet your unique needs, keeping you in control while providing you with services no other company can match.

www.lynden.com

1-888-596-3361

The Lynden Family of Companies

Innovative Transportation Solutions

View from the Top

maerskline.com

Dear Global Shipper,

At Maersk Line, we are dedicated to delivering the highest level of customer-focused, reliable global ocean transportation services. We are concentrating our efforts on serving you better in three critical business areas: On-time Delivery, Ease of Doing Business, and Environmental Performance. The following explains our goals:

- In the next 3-5 years, we will deliver 95% on-time delivery - not just port-to-port, not just to last CY, but to last store door. We believe this will help you remove waste and unnecessary costs from your supply chain.
- In an effort to reduce the complexity of buying ocean transportation and to improve service, we are establishing new and easier ways to work with us. We've created a new CustomerCARE model for our Customer Service organization. This is a shipment ownership program that provides you with hands on, end-to-end service. Your customer service representative will know you and your business so you have consistent, proactive support.
- As a leader in sustainable practices, we are serious about Constant Care for the Environment and Communities that call it home. With a focus on Environmental Performance we help you reduce the carbon footprint of your supply chain adding value to your logistics operations in the eyes of who matters most, your customers. From 2007 to 2020, we'll reduce CO_2 emissions by 25% per container moved.

Beyond these three improvement areas, you'll find our vast and comprehensive global service network is designed to effectively move your imports and exports throughout the world.

Best regards,

All of us at Maersk Line in North America

Maersk Line
2 Giralda Farms Madison Avenue
Madison, NJ 07940
Phone: 973-514-5000
Fax: 973-514-5410
usatnmcom@maersk.com

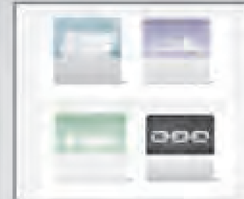
View from the Top

Magaya®

Logistics Software Solutions

Logistics software products from Magaya Corporation have been helping over 1,400 international logistics providers to improve their operations since 2001. Magaya customers include freight forwarders, consolidators, warehouse providers, cargo airlines, shipping lines, NVOCCs, export/import companies, wholesalers, and distributors.

Magaya Corporation has built on their initial product, the Magaya Cargo System, to include more options such as warehousing and supply chain features to meet the needs of the ever-changing logistics landscape. Built on the award-winning Magaya Network, the software connects logistics companies with their origin and destination agents, and it provides business-to-consumer communications between logistics companies and their customers.



Magaya Corporation
www.magaya.com
8725 NW 18 Terrace, Suite 209
Miami, FL 33172
Phone: (786) 845-9150
info@magaya.com

Magaya Cargo System

A complete software system designed especially for the logistics industry. All shipping, warehousing, and accounting features are integrated. Many international trade documents are included. Online tracking is built in.

Magaya WMS

Control cargo transfer, receipt, and storage. Increase the speed and accuracy of receiving, sorting, picking and loading by scanning barcodes with wireless handheld units. Maintain up-to-the-minute records of inventory to offer customers a Just-In-Time inventory strategic advantage.

Magaya Commerce System

Designed for wholesalers, distributors, importers, exporters and traders. Get Inventory Control, Purchase Orders processing, Sales Orders processing, pickup and delivery of merchandise, accounting, and a complete Warehouse Management System.

Magaya Supply Chain Solution

This software solution covers the complete logistics process of merchandise delivery from seller to buyer. It includes all the functionality from the Magaya Commerce System, Magaya WMS, and the Magaya Cargo System.

The vision Magaya has for its customers is a future free of paper and redundant data entry. As customers grow, they can add more features and use the customization options to fine tune the software to reflect their company's needs and personality. Magaya Corporation also continues to expand from its headquarters in Miami, Florida, to Houston, Texas; Hoboken, New Jersey; Los Angeles, California; and Sao Paulo, Brazil.

A free download of the full software is available online - try it free for 30 days.
www.magaya.com

View from the Top

MIQ LOGISTICS

The smart solution to global integrated logistics.

MIQ Logistics is a leading provider of distribution, global and transportation services operating in Asia, Europe, North America and South America.

The company operates over 70 facilities around the world, and supports trade activities among 80 countries by providing international freight forwarding, customs brokerage, transportation management, truckload services, contract logistics and dedicated warehouse and fulfillment services. Through a global agent network, over 5,000 in-country logistics professionals deliver supply chain services, allowing companies to improve their bottom-line performance.

Joey Carnes, chairman and CEO, states "Our business is still very relationship-based and we believe each customer is unique and best served when we gain a deep understanding of its business. To gain this understanding, we hire the best talent in the industry to analyze each customer's particular needs and then design and implement a solution specifically developed for them with a personal commitment to exceed their expectations."

Joey Carnes
Chairman and CEO

The MIQ Logistics infrastructure delivers seamless logistics services supported by expertise in global supply chain management. Transportation services enhance supply chain efficiency with network strategy design, predictive modeling, shipment optimization and execution tools. Web-native technology enables timely and accurate shipment tracking, status monitoring, event management and reporting to efficiently share information across a customer's organization.

A wide range of sophisticated global logistics services at points of origin around the world help companies achieve overall supply chain savings, while gaining better control of shipments. These services feature global freight forwarding, trade and customs compliance assistance, and value-added services such as account management, logistics engineering, and distribution bypass strategies.

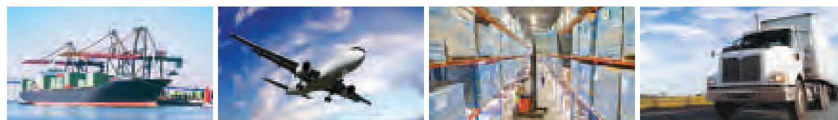
John Carr
President and Chief Operating Officer

Comprehensive distribution capabilities help drive lower transportation costs, sort and sequence shipments and add value to a company's supply chain. MIQ Logistics offers contract logistics, warehouse management and fulfillment, and a range of value-added services, including labeling, customized packing, light assembly and shipment consolidation.

In today's world it isn't just about providing time-tested, logistics services. It's about smart solutions.

MIQ Logistics is headquartered in Overland Park, Kansas. To find out more, visit our website at miq.com.

For Intelligent Global Solutions call +1 877 232 1845.



INTELLIGENT GLOBAL SOLUTIONS

www.miq.com.

View from the Top

John O'Kelly
President

Dear Readers of Logistics Management,

As the market rebounds from a tough economic environment, a major challenge that our customers face is **to improve efficiencies in existing processes and procedures before even thinking of hiring additional personnel.**

Newcastle Systems' mobile power solution is simple. We've recognized that developments in wireless technology changed the nature of how electronic hardware is used. Processes that were originally built around a network or electrical connectivity at a fixed location can be modified because the technology can now be brought to where the work is taking place.

Newcastle Systems' full line of Mobile Powered Workstations, integrated with your Auto-ID Technology, provides a complete solution for mobile high-volume printing applications in shipping/receiving, inventory management, cycle counting, order picking and more.

Improved efficiencies are immediately apparent:

- Eliminate walking back & forth to printers, computers & other equipment
- Print labels "on-demand" - leading to higher accuracy of product identification
- Gain access to real-time information ANYWHERE in the DC
- Maximize your wireless infrastructure

I invite you to see how much you can save throughout your organization. Please check out our ROI Calculator (**www.newcastlesys.com/ROI**) to help you quantify these inefficiencies and demonstrate how a Mobile Powered Workstation can help.

Sincerely,

John O'Kelly, President
jokelly@newcastlesys.com
781.935.3450
www.newcastlesys.com

Mobile Power Solutions for Auto-ID Technology

View from the Top

DAVID CONGDON: VIEW FROM THE TOP

There is so much to worry about these days when it comes to running a business, but whether a shipment arrives on time – and undamaged – shouldn't even make the list.

Frankly, no one needs another freight and logistics company. What companies need is a partner, someone who understands the intricacies of the problems they are facing and who can offer the customized solutions to fit the situation.

People constantly ask us: How do you do it? What makes Old Dominion successful? Well, the answer is quite simple: We've not only set out to maintain pricing discipline and invest in our infrastructure so as to position ourselves for long-term growth, we're constantly investing in our employees and focusing on our service.

Let's focus on that last point for a moment. At Old Dominion, rather than saying we're in the less-than-truckload business, we say that we're really in the business of keeping promises and whatever business you're in, we're in. Our consistent market share gains reflect the value of our high-quality, integrated and comprehensive services.

Every shipment we deliver represents a promise each of our customers has made. With that in mind, we focus on the task at hand, and utilizing technology, up-to-date infrastructure and the best people possible, we've made it our goal – really, our commitment – to deliver every shipment on-time and damage-free. When we fall short, we stand strong, take responsibility and learn from our mistakes.

Throughout the recession of 2008 and 2009, we redoubled our focus on improving our service. As a result, our on-time service record reached 98.7 percent in 2010, and we once again improved our cargo claims ratio to a new record low in 2010 such that our claims as a percent of revenue totaled 0.51 percent. We're continuing to see improvements for both metrics thus far in 2011.

By offering best-in-class service at a fair and equitable price, we believe we have created a value proposition for shippers that should allow us to gain additional market share and create additional value for our shareholders.

Our four product groups – OD-Domestic, OD-Expedited, OD-Global and OD-Technology – provide our customers with the complete range of products and services they need to deliver on our promise of simplified transportation solutions. We provide direct service to 48 states through 213 state-of-the-art service centers, expedited, drayage and assembly and distribution services, as well as container delivery services to and from North America, Central America, South America and the Far East.

In our global division this year, we expanded our Pacific Promise™ less-than-container load (LCL) service to Taiwan's three main ports, in addition to 10 ports in China where the service is already offered. This recent expansion of Pacific Promise will help us better serve the needs of our customers by expanding our faster, more cost efficient service to include Taiwan's three main ports.

Anyone can have all of the plans and strategies in the world. But, in the end, it's about making our customers' businesses our own and working to achieve a common vision: "Helping the World Keep Promises."

David Congdon is president and CEO of Old Dominion Freight Line, Inc. With more than 35-years of experience in the transportation industry, Congdon has spent the majority of his career continuing the legacy of his grandparents, Old Dominion founders, Earl and Lillian Congdon.

OD-PEOPLE OD-DOMESTIC

HELPING THE WORLD KEEP PROMISES.℠

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View from the Top

BUSINESS RUNS SMARTER WITH RAYMOND

The key to the success of your warehouse operations is efficient material handling. And nobody does it better than Raymond. Why? Because Raymond believes material handling is much more than just handling materials.

Innovation and optimization
Raymond believes material handling is about getting more from your warehouse. More production. More revenue. And more profit. For nearly 90 years, Raymond has offered customer-driven lift truck innovations and warehouse optimization technology and services to become an integral component of its customers' supply chain.

Lowest cost per pallet move
With Raymond, you get the lowest cost per pallet move. In USAC-supervised testing, trucks with Raymond's exclusive *ACR System*™ moved more pallets per hour than competing models, using up to 40 percent less electricity. It means you'll save on labor and energy. It's what Raymond calls Eco-Performance—the perfect balance of productivity and energy efficiency.

Consultative services and expertise
Raymond also helps you get more from your space, with consultative services and expertise to help you optimize your floor and rack layouts and right-size your lift truck fleet. Raymond's custom solutions help you improve maintenance, productivity, and cost.

Run with Raymond
With industry-leading knowledge about our customers' processes and expectations, and all of the intricate elements involved in material handling, Raymond is second to none. If you want to run your warehouse better, faster, and smarter, run with Raymond.

RAYMOND
Above. And beyond.®

raymondcorp.com

View from the Top

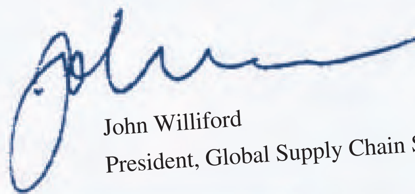
At Ryder, we understand that the most important part of any logistics engagement is reliable execution, and this has become increasingly true as supply chains have grown more complex.

Our vision is to partner with our customers to design and deliver innovative solutions that provide competitive advantage, enable improved financial and operational performance, and achieve exceptional customer service.

Our logistics teams are empowered to identify and eliminate waste in every process that occurs as an order is fulfilled. Lean tools, such as visual cues, problem solving jackets, and root cause analysis, have resulted in shortened lead times, build-in quality and continuous improvement – ultimately increasing the speed to market for our customer's goods.

In our quest to apply deep expertise in key industry groups, Ryder and Total Logistic Control joined forces earlier this year to provide source-to-shelf solutions to the food, beverage and consumer packaged goods industry. Now doing business as Ryder's CPG industry group, our capabilities in distribution and packaging provide the flexibility that today's fast-paced consumer goods marketplace requires. These CPG solutions complement our logistics services for the Automotive, Hi-tech, Industrial and Retail industries.

As the economy steadily rebounds, our customers will continue to seek solutions to help cut costs and improve delivery performance. We are committed to building on our best-in-class operational execution by investing in the technology, engineering skills and expertise in your industry. At Ryder, we take pride in being a reliable, value-creating partner – and delivering the supply chain excellence that defines some of the world's best performing brands.



John Williford
President, Global Supply Chain Solutions, Ryder

Execution is Everything.

SUPPLY CHAIN • DISTRIBUTION • TRANSPORTATION • CONTROL TOWER

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View from the Top

Saia, Inc.

Richard D. O'Dell
President and CEO

At Saia, we're not satisfied with providing ordinary results.

We believe in the uncompromising pursuit of excellence.

We won't stop until we succeed at surpassing our customers' expectations.

Saia Adds New Indicator, Exception-free Delivery

Earlier this year, Saia launched its new Customer Service Indicator® (CSI), Exception-free Delivery (EFD). This metric measures the percent of shipments that are delivered to our customers each month without a noted exception. Saia is the only carrier in the less-than-truckload industry to report on this critical measurement.

While it has been over a decade since we created the CSIs, the addition of the EFD metric is the latest development in the evolution of the program that was the result of extensive customer research.

We asked customers what information they needed to make their transportation purchasing decisions. Based on their feedback, we developed our CSIs - the key metrics customers said were most important to them. Since then, they have been the foundation for our growth and superior service. Exclusive in the industry, they allow us to measure and publish our performance each and every month. Aside from the EFD metric, they also include:

- Pick-up Performance
- On-time Delivery
- Claims-free Service
- Invoicing Accuracy
- Claims Under $1,000 Settled Within 30 Days

Since our beginning 87 years ago, Saia has grown to become one of the top less-than-truckload carriers operating in the United States. We provide shippers with fast, reliable regional and interregional service through our network of 148 terminals, including our newest facility in Bloomington, IL, located in 34 states.

We offer a range of services and products, including our industry-exclusive Xtreme Guarantee® that promises 100 percent satisfaction, to meet our customers' needs - from one and two-day delivery, multi-regional and truckload service, expedited shipping, consolidation/distribution centers, and managed appointments.

Phone: 1-800-765-7242 Fax:770-232-4064
E-mail: customerservice@saia.com

View from the Top

Creating a Successful LTL Pricing Strategy

Strategically applied LTL pricing is part of a comprehensive overall transportation pricing strategy that supports today's global supply chain demands and multimodal shipping patterns.

Jack E. Middleton
SMC3 President & CEO

To better understand current industry attitudes towards LTL pricing, SMC3 commissioned a study by Auburn University that explored shipper, carrier, and 3PL attitudes towards LTL pricing—revealing that these businesses are clearly looking for direction and better benchmarking tools for formulating their LTL pricing strategies.

Lead by Professor Joe Hanna, an Auburn University research team surveyed U.S. transportation industry executives and practitioners—including 3PLs for the first time in an LTL pricing study—using detailed phone interviews and follow-up online surveys. Auburn released the "Synergic Pricing in the LTL Industry" study results to over 250 attendees at the June SMC3 Connections 2011 Conference in Coeur d'Alene, Idaho.

Auburn's Key Survey Results

- LTL pricing approaches need to change, but there was no survey participant consensus on precisely how this change should happen.
- Significant pricing challenges exist for anyone who wants to take the lead in pursuing significant changes to current practices.
- Many industry experts predict that some type of density/cube-based pricing system—that would easily interface with current processes—is likely to happen, but survey participants could not agree on what a new system should look like.
- Base rates may need to be re-indexed.

SMC3 serves as a clearinghouse for industry research, best practices, and news. To keep abreast of our activities, visit www.smc3.com

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View from the Top

APPIAN ADDS TO TMW SYSTEMS' POWERFUL LINE OF TRANSPORTATION SOLUTIONS

Appian Logistics Software has joined TMW Systems' portfolio of logistics planning and transportation management tools for 3PLs, dedicated logistics operators, courier services and private fleets. Alongside TMW's other products, Appian gives fleets the power to do more with the resources they have.

Appian products provide best-in-business, last-mile routing and scheduling optimization solutions for dedicated and private fleets. Customers have reported utilizing 10-25% fewer trucks, drivers and hours. This has translated into 8-15% reductions in total distribution costs, with most customers seeing measurable results within three months and realizing a return on their investment within nine months. Service companies can see 8-20% reductions in miles and hours over their current results.

TMW's newest products include Appian's:

- **Appian DirectRoute,** which Builds fixed routes or dynamic daily routes, single day, multi-day and provides one-way routing capabilities.
- **Appian DRTrack,** which posts fleet routing data from Direct Route to the web and provides online access to route schedules, real-time GPS tracking, and historical reporting.
- **Appian TerritoryPro,** which adjusts and designs sales, service, and delivery territories based on constraints such as sales volume, service time and/or coverage area.
- **Appian ResourcePro,** which determines the number of drivers and power units needed to operate a given set of routes.
- **Appian Continuous Move Planner,** which generates optimal matches of truckload moves for a given set of Origin-Destination pairs.
- **Appian SchedulePro,** which generates optimal service days based on delivery frequency.

Like TMW, Appian has built its reputation on its commitment to quality, innovation, and superior customer service. Its success makes it a perfect complement to TMW's already robust line of transportation-services products.

Beside Appian products, TMW's optimization offerings include IDSC Netwise, IDSC ExpertFuel, IDSC TripAlert and IDSC MatchAdvice. Current Appian customers gain direct access to integrated enterprise transportation-management solutions and a wide range of complementary and best-of-breed applications, from business intelligence to asset maintenance, under TMW.

With the acquisition of Appian, TMW now works with at least 21 of the top 25 dedicated carriers in the United States. As with previous acquisitions, TMW will continue to develop, support and sell the entire Appian product line to protect customers' technology investments.

All TMW products are designed to address all of the detailed planning and execution processes of a transportation service. TMW solutions are field-proven, expandable and robust operations platforms that can be quickly configured for the many unique business needs of shippers, carriers and 3PLs — without custom software-development costs.

Control expense and improve visibility to surface transportation execution with cost-effective TMS solutions from North America's leading enterprise transportation software provider. Give TMW a call today!

www.tmwsystems.com 800.401.6682

View from the Top

Union Pacific Delivers Logistics Solutions With or Without Rail

Every day, customers in every industry take advantage of Union Pacific's logistics expertise. Union Pacific coordinates the efficiency of America's rail network with the flexibility of trucks and the reach of ocean carriers to provide door-to-door freight transportation solutions. No matter what customers ship, or where they need to ship, Union Pacific gets it there.

We make it easy for customers to navigate complex logistics processes. Through on-time freight transport from a variety of locations – whether near rail or not – Union Pacific helps customers manage tighter inventories to meet growing business demands.

Jack Koraleski
Executive Vice President,
Marketing and Sales

Here's how we do it.

COMMITMENT TO SERVICE
Our customer satisfaction index, measuring real feedback from real customers, is at an all-time high. Every one of our 44,000 employees knows that everything they do is to help our customers succeed.

SOLUTIONS THAT MAKE SENSE
One size or one solution doesn't fit every customer's needs. Our logistics experts work with customers to determine the best door-to-door shipping solution for their businesses whether they require multiple carriers, expedited service or just a cost-effective move from origin to destination.

TECHNOLOGY
Cutting-edge technology plays a key role in our service capabilities. Nearly every locomotive we operate is tracked via GPS, Automatic Equipment Identification dramatically streamlines the inventory process, and our specialized shipping solutions track and manage freight transportation across multiple carriers.

COST COMPETITIVE
We work to be the most efficient, cost-effective choice when it comes to shipping options. Helping customers find the right solutions for their specific needs is our top priority.

GREEN TRANSPORTATION
Union Pacific trains can move a ton of freight nearly 500 miles on a single gallon of diesel fuel. Freight trains are almost four times more fuel efficient than trucks, and Union Pacific owns the industry's cleanest and most modern locomotive fleet.

Union Pacific ▪ 877-883-1442 ▪ www.unionpacific.com

BUILDING AMERICA®

View from the Top

Becoming a Shipper of Choice

By: U.S. Xpress Enterprises, Inc. Management Team

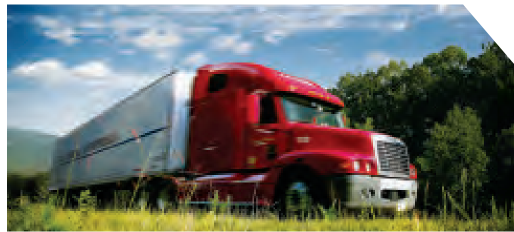
In a market where carriers are accustomed to vying for the business of shippers, due to limited capacity and driver shortages, shippers are being forced to compete with one another for access to precious freight options. Shipper challenges will likely grow more acute over time and with greater regulations, posing a potential threat to profitability and growth.

By focusing on a few key areas, such as those that follow, your company can establish itself as a shipper of choice, giving you the edge in terms of securing much-needed load space.

- **Emphasize advance freight planning and freight consistency to maximize capacity.** In addition to offering carriers consistent load volumes and frequency, smart shippers know that giving them a heads-up on surges in inventory levels or increased demand periods allows the carrier to plan accordingly to make space available during peak needs. In all cases, greater predictability results in improved operating efficiencies on both sides.

- **Leverage technology to make the freight company's job easier.** At U.S. Xpress, we encourage all our shippers to use an EDI system to expedite load tendering, status updates, and payment. This streamlines the process for all involved, making it much easier for shipper and carrier to work together.

- **Be fair and flexible.** Shippers who use the American Trucking Associations' model contract as a basis for their agreements are much more attractive to carriers. You should also evaluate your policies on things like utilizing a fair fuel surcharge, honoring bid commitments and timeframes, and not having payment terms over 30 days. Also, shippers who are willing to extend their shipping and receiving times are far more likely to get additional capacity.



- **Create a job a driver wants to sign up to do.** Since much of the industry's current capacity issues are based on driver shortages, making their job more appealing is half the battle. Try to minimize loading, unloading, and wait times. Show them a little hospitality by providing clean, comfortable breakrooms, as well as snacks and drinks. Our drivers tell us time and again what a difference driver-friendly shippers make in improving their satisfaction levels, helping us to retain good drivers and keep your freight moving.

- **Look for a carrier who offers a variety of solutions.** No matter how great the demand for space, a good carrier will work closely with its customers to find mutually beneficial solutions. At U.S. Xpress, we have a variety of services available to meet a wide range of needs, including Truckload, Intermodal, Dedicated, Demand Critical, and Brokerage. Through our logistics services, we also offer the option of serving as the transportation department for our customers, allowing them to hand off the hassles and planning completely.

With all of the issues facing shippers and carriers, including limited capacity, increasing regulations, rising fuel costs, and impending driver pay rate increases, it is imperative that we find common ground and a means for making it easier to do business with one another.

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SAGE ADVICE

Eleven critical shipper behaviors

By Wayne Bourne

AS WE TURN THE CORNER TOWARDS a lasting recovery, we're reminded of the columns that we wrote in the recent past signaling the shifts in partnerships between shippers and transportation providers—specifically on the rates and services "dance" and potential capacity tension.

What we realized a year ago, when the economy started to come back, was that it also beckoned a shift in negotiating power back to the transportation provider. We wrote about the carrier standing fast on their fleet size, and in some cases, right-sizing (reducing) the fleet to more efficiently manage the bottom line. For the most part very little, if any, rolling stock was added to existing fleets, thereby setting capacity at a level consistent with the tendered requirements of the past three "down" years.

My best guess, based on the information I get from the many carriers that I communicate with each month, is that the current average fleet size is equivalent to approximately 82 percent to 84 percent of the levels maintained during the 2006–2008 business years.

So, let's break it down: An improving economy will produce more load tenders to a collective fleet with trending lower capacity. The notion then becomes that an old-fashioned "Dutch Auction" will take place in the rate negotiations. Thus leading one to conclude that rates will increase substantially or that service may become compromised as some shippers abdicate service for lower rates. Well, it isn't necessarily so. Good, bilateral partnerships will prevail. Those that worked with their partners during the lean days will be there for each other for the fat days. However, your definition of what constitutes a good partner may differ considerably from how your partner's.

For some clarity, I asked a group of carriers and shippers to help me prepare a list of shipper behaviors that would be beneficial to the transportation providers in stabilizing costs or even becoming more competitive.

Do not require driver to load or unload freight. The driver has been on the road a long time, his on-duty hours are shrinking, and he needs to be back on the road to pick-up a lane-balancing load. Establish "drop and hook" trailer pools, and remember that load labor increases expenses and reduces productivity for the carrier.

Reduce multi-stop truckloads or the number of stops. These types of loads are very costly from a productivity perspective. Although you may be paying an additional stop-in-transit fee for this service, the carrier tends to loose time and money on each one.

Develop scheduled appointments for live unloads. If you don't currently have scheduled appointments for your inbound freight or your "live" outbound loads, then you're creating productivity and expense losses for your carrier. Trucks in cue are hugely unproductive.

Ship SL&C under seal to eliminate the driver count. Let the driver do what he does best. Establish your count, lock it up, and seal it. If the seal is intact at destination, then the driver is off the hook for the count.

Give longer lead times. Give the driver/carrier a little extra time to the delivery appointment. This will accommodate his new log requirements and HOS hassels.

Where and when possible, offer continuous miles. Do you have freight that could be tendered to the driver upon completion of his delivery that would eliminate dead head miles?

Pay your invoices on time. Stay within your agreed payment terms with the carrier. He is your transportation service provider, not your bank.

Do not file frivolous freight claims. Do your internal investigations first and thoroughly. File a claim only when you are convinced that you have incurred a loss.

Do not embellish cargo insurance requirements. Don't require a carrier to provide you with far more insurance than you will ever encounter in total losses. If the maximum value of a full load is $250,000.00 then don't require $1,000.000.00. A carrier's insurance premiums will reflect this practice.

Pay your full fuel surcharges. Don't stretch out the formulas that determine fuel surcharges.

Respect drivers. Treat these professionals with respect. Provide them with access to rest facilities at your premises. Offer refreshments and communications capabilities to them as well. They are some of the best promoters of your company based on the treatment they receive when they are on the job.

These behaviors are already in place with the shippers that "get it." But for others, they're unwittingly creating non-productive expenses for the transportation provider and forcing them to consider adjusting your rates, or even worse, not allocating any available capacity to your use. □

Wayne Bourne is founder and president of The Bourne Management Group, a consulting firm specializing in supply chain, logistics, and transportation network creation, economics, organizational development, and process analysis. A recipient of several industry awards, he has nearly three decades of experience in transportation and logistics management. Mr. Bourne may be reached at WLB1144@aol.com.

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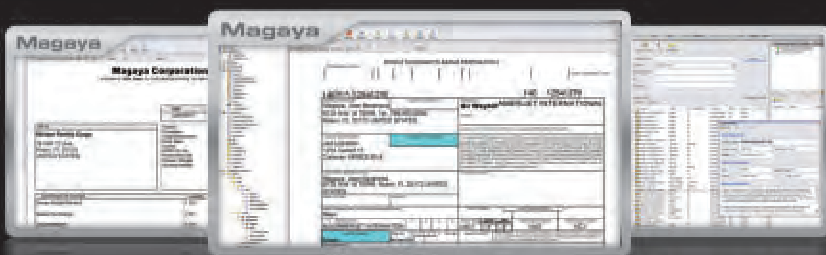

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